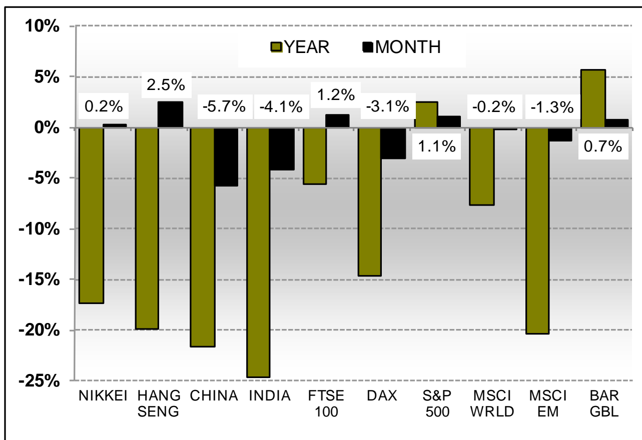
MAESTRO INTERMEZZO

Investment Letter | 12th Edition | January 2012

December in perspective – global markets

Equity markets began December on a weak footing but recovered some ground around the middle of the month to end marginally weaker. Emerging markets flew into some headwind; the MSCI Emerging market index declined 1.3% while the World index fell only 0.2%. It was not all good news on the developed markets though; Germany declined 3.1%, after having been down 6.9% intra-month. And it was not all bad news in the emerging market universe; Indonesia rose 2.9% while the MSCI indices for Malaysia, Philippines and Columbia all ended up on the month. However, Russia declined 10.3%, China 5.7%, India 4.2% and Brazil 0.2% as the Bric countries put a year of equity market weakness behind them; the respective MSCI indices for Brazil, Russia, India and China registered declines of 24.9%, 20.9%, 38.0% and 20.3% for the whole of 2011. The MSCI SA index declined 17.3%. The gold price experienced another jaw-dropping decline (refer to Chart 2) which must by now surely have abolished its status as a safe haven once and for all - remember its drop of more than 20% over five days in September? Gold ended down 9.8%, silver fell 10.1% and platinum 13.1%. The precious metal declines stood in contrast to the modest increases in base metal prices; copper rose 1.9% in December, nickel 7.8%, and iron ore 2.2%. The oil price fell 2.8% but still ended the year up 13.3%. On the currency front, the euro and sterling declined 3.6% and 1.2% against the dollar respectively. Emerging market currencies experienced mixed fortunes: the Brazilian real (-3.4%), Indian rupee (-1.7%) and Russian rouble (-4.4%) were all weak but the rand held its own; it firmed 0.3% against the greenback. The Barcap aggregate bond index rose 0.7%. We will list and analyze the returns for 2011 as a whole in more detail in the Quarterly Reports.

Chart 1: Global market returns to 31 December 2011



What's on our radar screen?

Here are a couple of items we are keeping a close eye on:

- *The South African economy*: SA inflation rate rose to 6.1% in November, in so doing breaching the official inflation target range of 3% - 6%, as expected. Food, up 11.1% year-on-year, and fuel prices were the main drivers behind the monthly increase of 0.3%; core inflation i.e. inflation excluding food and energy prices, rose marginally to 3.8%.
- *The US economy*: Third quarter (Q3) US GDP was revised lower, yet again. From an initial estimate of 2.5%, it was revised down to 2.0% and then even lower to 1.8%, by which time virtually nobody even noticed. In general though, data emanating out of the US was better than expected; it would not be surprising to see a reasonable growth number for the fourth quarter of 2011 but thereafter we think US growth is going to run into strong headwinds.

Chart 2: The gold price over the past year (US dollars)

Source: Saxo Bank

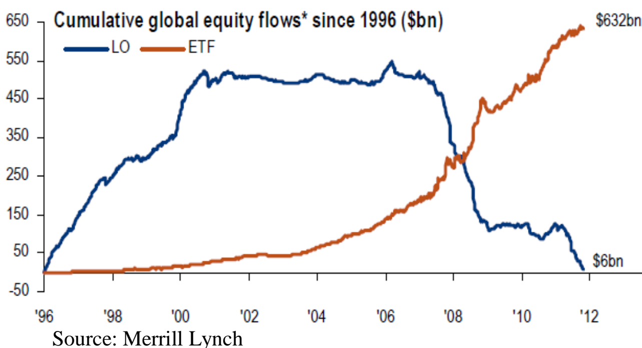
- *Emerging markets*: **Brazil's** economy posted a shock contraction in the September quarter. It declined by 0.04%, which although marginal, puts their recent interest rate cuts into perspective. Brazil's inflation rate declined to 6.6% from 7.0% in October. Their annual growth rate to end-September was 2.1%, a far cry from the 7.5% achieved in 2010, and indicative of the effect of the slowing global economy on one of the Bric countries. In stark contrast, **Turkey** grew at an annual rate of 8.2% in the third quarter; analysts were expecting a rate of only 6.7%. The growth rate for the first nine months of 2011 now stands at 9.2%. On the face of it, Turkey's growth is remarkable – it has been one of the world's fastest growing economies for some time now. The concern of many though is that growth is being fuelled by domestic demand, leading to a very large current account deficit, currently about 10% of GDP and the second largest in the world in absolute terms after the US. This would be less of an issue were it not for the fact that the deficit is being funded by external portfolio flows, such as foreigners investing into their equity and capital markets (as opposed to fixed investment) which as South Africa has learnt at

its peril in the past, can reverse very quickly. So while Turkey's growth is impressive, it is a "high-risk" growth strategy, which together with their prevailing inflation rate of 9.5%, makes for a heady cocktail at a time of great volatility and uncertainty in the world. The Reserve Bank of **Australia** cut its interest rate by 0.25% to 4.25%, the second cut in as many months. **Chinese** inflation declined from 5.5% in October to 4.2% in November; the inflation index is benefitting from a high base, supporting the view that inflation is likely to continue moving lower in the months to come. Annual retail sales rose from 17.2% to 17.3% in November.

Charts of the month

I came across an interesting chart recently, which formed part of a short article speculating that stock-picking as a means of managing money, is "out of fashion". We would agree that stock-pickers (we would include Maestro in that community) have had a torrid time in the past three years, but remember that the US and international experience is different from the SA one. In the latter area most investment managers beat the All share index, whereas in the former regions, this is not the case. Be that as it may, the suggestion about stock pickers being out of fashion was made after considering the flow out of long-only equity funds in the US and into exchange traded funds (ETFs) which have as their sole purpose the tracking or mirroring of a pre-specified index. Chart 3 shows that since 1996 investors have all but redeemed their investments into traditional funds but have poured a cumulative $632bn into ETFs.

Chart 3: Cumulative flows into long-only funds and ETFs



Source: Merrill Lynch

And while on the subject of inflows, Chart 4 shows the cumulative inflows into precious metal funds, the bulk of which has been gold funds. For all its perceived status as a safe-haven, gold has suffered two jarring corrections in recent months, causing even the die-hard gold bulls to question its status. In my humble opinion, any asset that drops more than 20% in five days, as gold did in September, can hardly be viewed as a safe-haven – refer to Chart 2 for a chart of the gold's recent price action.

Chart 4: Cumulative flows into precious metal funds ($bn)

Source: Merrill Lynch

For the record

Table 1 lists the latest returns of the mutual funds under Maestro's care. You can find more detail by visiting our website at www.maestroinvestment.co.za. Returns include income and are presented after fees have been charged. Fund Summaries for each respective fund listed in the table are available on our website.

Table 1: The returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	**Dec**	**-0.1%**	**-4.4%**	**-4.4%**
*Maestro equity benchmark **	*Dec*	*-2.1%*	*6.1%*	*6.1%*
JSE All Share Index	*Dec*	*-2.5%*	*2.6%*	*2.6%*
Retirement Funds				
Maestro Growth Fund	**Dec**	**-0.2%**	**-1.3%**	**-1.3%**
Fund Benchmark	*Dec*	*-1.4%*	*5.7%*	*5.7%*
Maestro Balanced Fund	**Dec**	**-0.2%**	**0.0%**	**0.0%**
Fund Benchmark	*Dec*	*-1.1%*	*6.1%*	*6.1%*
Maestro Cautious Fund	**Dec**	**0.4%**	**2.9%**	**2.9%**
Fund Benchmark	*Dec*	*-0.4%*	*5.8%*	*5.8%*
Central Park Global Balanced Fund ($)	**Nov**	**-3.9%**	**-9.6%**	**-5.1%**
*Benchmark***	*Nov*	*-1.6%*	*-2.3%*	*0.9%*
*Sector average ****	*Nov*	*-3.1%*	*-6.0%*	*-2.9%*

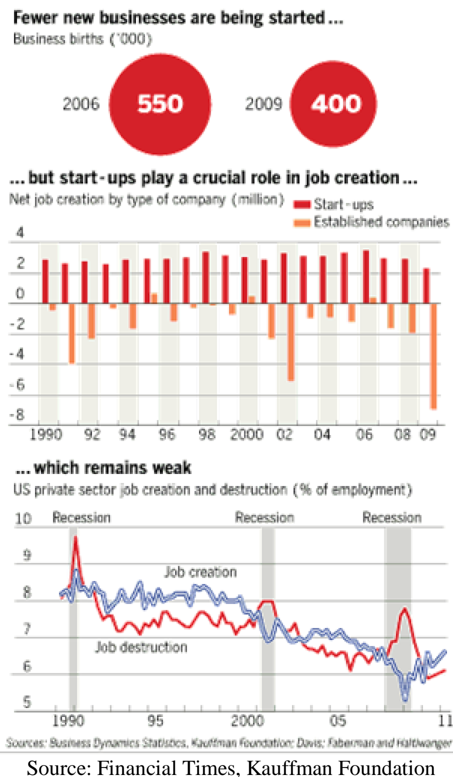
* 50% JSE Top 40 Index, 50% JSE Financial & Industrial 30 Index
** 40% MSCI World Index, 20% each in Barclays US Aggregate Bond Index, Credit Suisse Tremont Hedge Index and 3-month US Treasury Bills
*** Lipper Global Mixed Asset Balanced sector ($)

A closer look at the US labour market

As you are aware, we are particularly concerned about the short and long-term state of the US economy; we continue to study it very closely. In the course of our work, we came across some information that may be of interest to you. We know by now that the US labour market is in a state of crisis, having undergone enormous change in recent years. Consider the following: from the mid -1980s to the mid -2000s, between 450 000 and 550 000 businesses with at least one employee were created in the US each year. In 2009, the latest year for which records are available, there were just 400 000. More recent numbers suggest the climate

has deteriorated further. A slowdown would be expected in a downturn, but the start of the decline predates the start of the recession at the end of 2007; the peak year for business starts was 2006. The dwindling birth rate for businesses matters, because young companies are disproportionately responsible for creating jobs. *Companies less than five years old have generated all of the net jobs in the US economy since the 1970s*. As the rate of company formation slowed, the number of jobs created by each start-up has fallen, too. The rate of jobs created by start-ups, which was running at 3.0m - 3.5m a year, dropped to just 2.3m in 2009. For most of the 1990s, new jobs equivalent to about 8% of total employment were created every quarter, while jobs disappeared at a rate of about 7.5%; so the total number of people in work rose. Starting in about 2006 though, both job creation and destruction began to drift downwards and carried on falling even as employment recovered after the 2000 - 2001 recession - refer to Chart 5. The message is clear: *structural changes have occurred in the US labour market and it would be naive to think that it will return to the same level of full employment as before*. Clearly, the view towards and the health of the US consumer, with his legendary propensity to consume, will need to be adjusted.

Chart 5: The US labour market: not what it used to be?

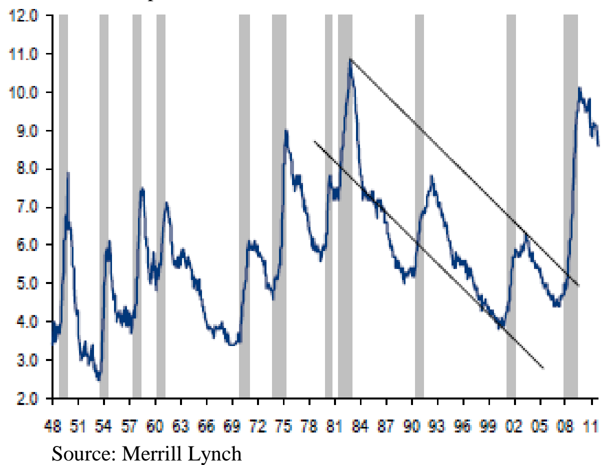


Source: Financial Times, Kauffman Foundation

Let's look at the US labour market another way. There are at least three major concerns: *firstly*, there are simply not sufficient jobs being created any more. In December 2007 the US economy employed 146m people. Four years later it languishes at 140m. At the current rate of job creation it will take another two and a half years to regain 2007 levels. Even that underestimates the problem, since in that time the population would have risen by more than 10m.

Chart 6: The official US unemployment rate (%)

Shaded areas represent US economic recessions



Source: Merrill Lynch

The *second* problem is that the US is employing a decreasing proportion of its people. At the start of the recession, the employment-to-population rate was 62.7%. The rate is now 58.5%. Last month the unemployment rate fell from 9.0% to 8.6%. On the face of it this looked impressive but more than half of the decline was due to people giving up looking for work. The 315 000 people who dropped out of the labour pool far exceeded the 120 000 new jobs. If the same number of people were seeking work today as in 2007, the unemployment rate would be 11.0%. Some have moved from claiming unemployment benefits to disability benefits. Others have fallen back on the charity of relatives while still others have ended up in prison; in 1982 there were just over 500 000 in jail. Today there are more than 2.5m, more than the combined populations of Atlanta, Boston, Seattle and Kansas City.

The *third* problem is that where jobs are created, they are in the least productive areas of the economy. Of the five occupations forecast by the Bureau for Labour Statistics (BLS) to be the fastest growing between now and 2018, none require a degree. These are registered nurses, "home health aides", customer service representatives, food preparation workers and "personal home care aides". According to a study by Nobel laureate Michael Spence and Sandile Hlatshwayo from Stanford University, all job creation since 1990 has been in the service sector. Almost half were in the healthcare or public service sector, where productivity growth has been virtually zero. By contrast, manufacturing's impressive productivity growth has been accompanied by a shrinking headcount. If there is an explanation as to why middle-class incomes have stagnated in the past generation, it is this: whatever jobs the US is able

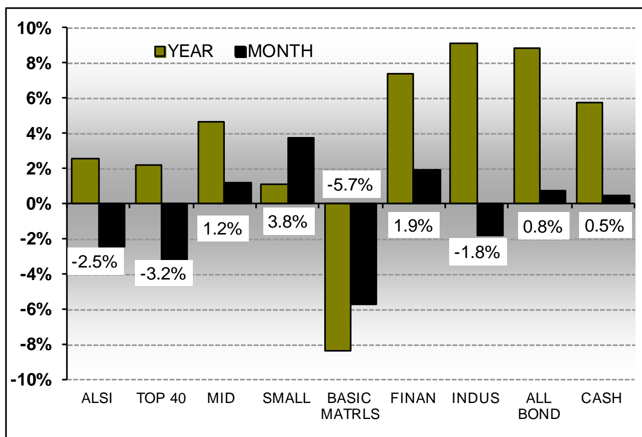
to create have been in the least efficient sectors – the types that neither computers nor China have yet found a way of eliminating. President Obama's former budget director, Peter Orszag, had this to say; "the truth is we don't know how to fix the US labour market. It would help to spend more on retraining and on infrastructure and have a more rational immigration system. But these wouldn't fundamentally transform the situation for the middle class ... it is not yet clear what, if anything, could."

2011 in Pictures: Col Muammar Qaddafi leaves a Tripoli hotel after a 3-hour speech to parliament promising reforms and retaliation. He was shot and killed on 20 October.

December in perspective – local investment markets

On the local market, the standout during the month was the small cap index, which ended up 3.8%. The mid cap index rose 1.2% but the large cap index fell 3.2%. The All share index declined 2.5% (and 2.2% in dollar terms), having being dragged lower by the basic material index, which fell 5.7%. The industrial index fell 1.8% but the financial index ended up 1.9%, thanks in part to a 16.6% rise in index heavyweight Old Mutual. In the face of a firm rand and a declining gold price the 11.1% decline in the gold index was hardly surprising. The All bond index ended 0.8% higher and cash generated its usual 0.5%.

Chart 7: Local market returns to 31 December 2011



A few quotes to chew on

In an open letter to President Obama, *Jared Bernstein, a former member of Obama's economic team*, had the following to say. "As you take office in January 2012, you must acknowledge that for the past year, gridlock and misguided priorities have stopped policymakers addressing our economic concerns. Americans' faith in their institutions has never been lower – both government and companies have let them down. Here are some insights to consider as you start your new term. Economists warn that the Great Recession and the incomplete policy response to it, will result in a long decade of weak growth and stagnant living standards for the US. But working households in America's middle class have already lost a decade. Their real income fell 10% between 2000 and 2010, from $61 600 to $55 300. That wasn't just due to the recession. The decade's expansion was a bust for them as regards jobs and incomes. So getting America back to work must be your goal...The reality that markets fail must also guide your thinking. The likelihood of very destabilizing events is higher in interconnected markets. Economists since Adam Smith have warned that markets tend to under-price risk in times of expansion. But many remain hypnotized by the theory that unfettered markets will self-correct, even though such thinking should have been extinguished by the Great Recession. In the past lost decade, markets failed to create enough jobs, to distribute the proceeds of higher productivity fairly or to regulate financial and housing markets. The damage done by these failures threatens another lost decade, a fate the country needs your help to avoid. Your final term gives you an opportunity to do so."

2011 in Pictures: Wedding bells at Buckingham Palace

Ethan Harris, Merrill Lynch North American economist writes as follows on the volatility introduced into the US economy by dysfunctional fiscal policy; "The economy seems to be held hostage to the worst kind of business cycle politics: temporary tax cut provisions, automatic sequestrations, rolling risks of a government shutdown, attacks on the Fed's independence and even a threatened

default on US debt obligations. A year ago, companies pulled back on concerns about financial regulations, health-care reform and the expiration of the Bush tax cuts. This summer, the threat of a default seemed to have a similar effect. Next year, we are worried about a looming fiscal tightening, the expiration of the Bush tax cut and another breach of the debt limit in early 2013."

Deutsche Bank wrote the following in their recent Global Emerging Market Strategy document: "(Our relative weighting in South Africa has been) neutral throughout 2011, whereas our impression is that most active funds have been underweight in the markets for the first half of the year, but have moved to a more neutral to overweight position since then. What has changed over the past four months? Firstly, the fundamentals in South Africa are relatively immune from the travails afflicting the Eurozone and China, though the currency and resource sector serve as a means of transmission. Secondly, investors who spent the first half of 2011 worrying about the potential future re-nationalizations have increasingly come to appreciate the current institutional and corporate governance strengths, which South Africa offers. Finally, there is a growing interest in SA stocks as an entry point into the rest of sub-Saharan Africa."

2011 in Pictures: July 21: space shuttle Atlantis returns to earth for the last time, ending NASA's 30-year program

The Financial Times' Washington correspondent, Robin Harding, writes about the problems in that city, as follows: "Washington has achieved almost nothing on fiscal policy this year (2011). Had you ignored every article and ranting speech, every sober analysis, projection, last-minute deal and madcap 9-9-9 tax plan for the past 12 months then your knowledge of public finance in the world's largest economy would barely be out of date... The budgetary noise is bad for short-term confidence in the economy but worse for the long-term prospects of a budgetary agreement that tackles the real issues: rising healthcare and pension costs and unwillingness to levy enough tax to pay for them... As with the dust-up with the debt ceiling in August, however, the short-term problem is ... the clear and repeated message that Washington is willing to gamble with the economy. The doctors have had a screaming row in front of the patient, refused to agree on treatment and gone home in a sulk without prescribing any painkillers. It may not do physiological harm but any patient with a nervous disposition is going to suffer. The longer-term concern is what it says about the prospects of a deal on entitlements and paying for them if the institutions of Congress cannot even reconcile small budgetary differences a week before Christmas. A deal grows more costly with every year reform is delayed."

I know that this is supposed to be the season of goodwill, but sadly I need to convey the risks about the coming year to you as honestly as I can. I therefore present the views of *US bond fund manager and Chief Executive of DoubleLine Capital, Jeffrey Gundlach*. Speaking about the European sovereign debt crisis, he "expects it to reach a crescendo. I'm not sure what it's going to look like but I really think this flower has got to bloom and we'll see what happens. I really expect a substantial shift in the paradigm for the economy, globally and for the investment markets." Gundlach frames the situation in terms of human nature. "Bull markets are characterised by the creation of wealth through co-operation, while bear markets are characterised by its destruction through a failure to work together. The creation of a euro, surprisingly, was not the beginning of an era, it was the end of an era. It was the most heroic example of co-operation but the co-operation was on paper and it was lip-service; the countries started to violate the fiscal requirements of their own treaty almost immediately. Europe, with its banking system and unserviceable debt, is just one of the *twin towers of risk* (my italics). The other is US government finances; not just the current budget deficit, but the promises of pensions and medical care to America's retiring generation of baby boomers that many argue dwarf the country's official debt obligations. Everybody wants them and nobody wants to pay for them. Capitalism without bankruptcy is like Christianity without hell... People who are looking for an explosion in bond yields on a better economy are thinking that somehow the world is still in 1995 when we had moderate economic growth, low inflation, stable tax policy and people getting along. Now you've got massive indebtedness, massive deleveraging, in Europe and the US. China's not exactly booming; the Shanghai stock market is on the low for the year. I've a really hard time with the argument the economy's about to go into some wonderful land of self-sustaining 5% GDP growth. Those who point to positive noises from companies have missed the difference between the last recession and now. The 2008 problem was a private economy problem and businesses do try, and are incentivized by laws and penalties, to tell the truth when they have earnings calls

every quarter. The difference here is it is not company-based. This is a government-based problem and a public economy, public sector problem; the issue that's so problematic is that the politicians won't tell the truth." Before you think Gundlach is being extreme, you might be interested to know that his fund was the top performing US bond fund in 2011, returning about 10.8%.

As if to echo Gundlach's sentiment, *former counsellor to the US Treasury secretary, Steven Rattner*, had the following to say; "Here is what I want Santa to bring me: straight talk from political leaders about the true nature of America's economic problems, and some solutions for dealing with them. So far, my Christmas stocking is empty".

2011 in Pictures: the Puyehue-Cordón Caulle volcano in Chile erupts in June, forcing the evacuation of 3 500 people

Enough about the US economy, its politicians and their respective problems and deficiencies – I hope by now you get the Big Picture i.e. you understand what one of our (Maestro's) major concerns is for the coming year, namely the looming debt catastrophe in the US. But let's change tack for a moment. In all the economic turmoil of 2011 it is easy to forget about the human tragedy that so many people around the world experienced during that year. *Financial Times commentator Gideon Rachman* summed it up well. In an article highlighting what in his opinion had been the five top stories of 2011, he wrote as follows; "What should be the fifth story of the year? Any account of the main events of 2011 has to include the Japanese tsunami, which swept away as many as 20 000 people. The dignity and stoicism of the Japanese in the face of a natural tragedy put the political and economic problems of the rest of the world into a proper perspective". I couldn't have put it any better.

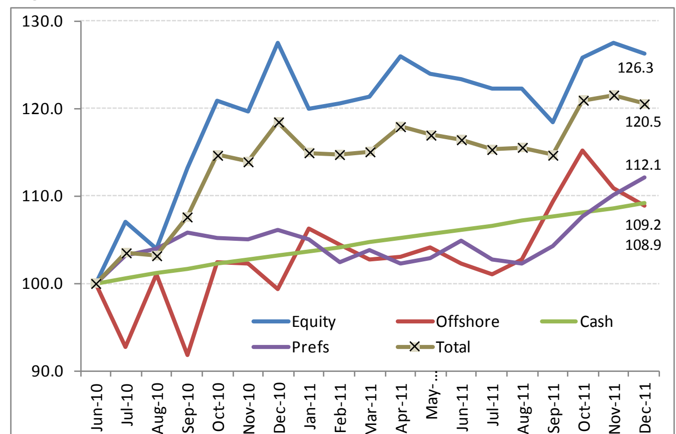
Investing 101: yet another timely reminder

Early in December we caught up with a potential client, to whom we had presented in early 2010 (yes, the lead times in this profession are very long!) After a number of meetings and letters, Maestro's final recommendation was tabled in a letter dated 23 June, in which we recommended he commit 65% of his available capital to the SA equity market, remit 20% offshore into Central Park Global Balanced Fund, retain 5% in cash and invest the remaining 10% into a few preference shares. Sadly – at least for Maestro – he decided to invest his funds elsewhere; no money went into the SA equity market or offshore as far as we know, but into private equity opportunities and into commercial property.

When we caught up with him in December (2011), I did a cheeky thing, not to show him up but rather to check whether our original advice to him in June 2010 had been appropriate. The purpose of the exercise was for our internal purposes rather than for him, but when I saw the results I felt compelled to share them with him, as I do now with you. The lessons to be gleaned from this exercise are simply too important to be overlooked. In the exercise I assumed he had implemented our recommendation and invested his capital across the various asset classes. I then used the actual returns Maestro achieved on the asset classes – so this is not a hypothetical example – and calculated what his return would have been had he followed our recommendation.

Given all that the markets have experienced by way of volatility and global crises, what do *you* think the results of the exercise were? I guesstimated that if they were in double figures, we should the grateful - we are talking about the period 1 July 2010 to 31 December 2011 (for the purposes of *Intermezzo* I included December's returns), an eighteen month period of extraordinary volatility and numerous financial and political shocks.

Chart 8: the case for diversification across asset classes



I was quite nervous about what the outcome would be, so you can imagine my delight and relief when the final return came to no less than 20.5%. It was far greater than I had expected. And the potential client was also surprised, especially seeing that he is still experiencing capital calls on many of his new investments, much to his annoyance. But perhaps the biggest lesson for all of us was to be found in

how these returns were made up over the period. The lesson is clear: *there is nothing quite like proper diversification to help investments navigate difficult market conditions*.
If you look carefully at Chart 8, you will see that during the first six months of the period (July to December 2010) the returns were propelled by the SA equity market (the blue line in Chart 8), which produced a return of 27.4% in that period. But in the following year (January to December 2011) the SA equity market did virtually nothing – it declined 0.9% in a volatile year. However, the offshore component (the red line) did the opposite; for the first year (July 2010 to July 2011) it produced no return, but in the ensuing five months, when the rand declined so sharply, the offshore portfolio rose 7.8%. Throughout the period cash plodded on at a rate of about 0.5% a month while the preference share component added here and there, ending 2011 on a strong note. The final result was a return of 20.5% over an eighteen month period, in the midst of a global crisis and enormous volatility. When one part of the total portfolio performed well, other parts did less so; and when the bulk of the portfolio (the SA equity component) went flat, it was left to the offshore component to provide the impetus, which is duly did in the latter stages of 2011. What a wonderful lesson on the benefits of diversification: *despite the uncertainty currently prevailing in the markets, there is a strong case to be made for a properly diversified investment portfolio, which, over time, will still deliver the goods.*

2011 in Pictures: former head of the IMF and French presidential hopeful Dominique Strauss-Kahn, cuts a lonely figure, waiting to be arraigned in Manhattan, New York

File 13: Information almost worth remembering
What's a government worth? – Part 2
Comments made last month on this topic generated quite a response – thank you to all who "engaged in the debate". There was an overwhelming sense of agreement with our point of view. Some of you sent me quotes that I thought were worth sharing:

- "In a society governed passively by free markets and free elections, organized greed will always trump disorganized democracy. We simply have no moral leadership left. All the great minds have left politics and have joined finance." *The Rolling Stone*
- "Previously we used to take decisions on fundamental economic bases. Now we are expected to make investment decisions on the basis of the reactions of politicians. We have become hostage to the irresponsible behaviour of politicians. We thought the US would meet its responsibilities as the sole reserve currency of the world. Instead, we found out the objective was to get re-elected." *Bader Al Saad, head of the Kuwait Investment Authority*, in a speech in New York on September 26, 2011. This quote was highlighted by Financial Times commentator, Henny Sender, with the following comment: "Mr. Al Saad voiced a frustration that is widely shared but not often expressed both in Asia and in his part of the world".
- Yet another client, who pleaded anonymity lest he land up in Pollsmoor prison, responded as follows: "I suggest that the ubiquity of inept politicians is just a symptom of an underlying weakening of government as an institution. We get weak politicians because the structure and system do not attract capable people like you and I. It used to be an honour and privilege to be considered, let alone invited to take public office, and upstanding citizens considered it their duty to assist those in authority. Much has changed, and not just in SA. The focus should be not on the politicians but on the systems by which we as societies organise and govern ourselves. The politicians are no longer of a calibre that can make the changes themselves – and it has been like that for a while now".

The harsh and cruel nature of reality
While reading an article about how the Madoff saga is slowly dragging through the legal process in the US, I was struck at how cruel and sobering the harsh nature of reality can be as I read how one Madoff investor related her story. She and her husband were on holiday when they heard about the arrest of Bernard Madoff. They had retired early, thanks to a successful investment with Madoff, and thought at first that his arrest must be due to a minor demeanour such as a traffic fine. Then when she heard the word "Ponzi scheme" she realised that the $1.7m they had invested with Madoff was all gone. The man she had entrusted her life savings to, had lost it all. "I remember when John F Kennedy was killed. I remember when 9/11 happened. And I remember when Bernie Madoff happened. At those three moments in my life I remember feeling a vacuum. The birds stopped singing and there was heaviness in the air."

INTERMEZZO

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The really *"Big Picture" – population trends*

I thought the following article from the *FT's Lex* made for fascinating reading: "Poor Thomas Malthus. The 18th-century theorist, who believed that population increases would inevitably be checked, must have turned in his grave when the seven billionth person was born on October 31 this year. (The timing was disputed, but that was mere detail.) The event meant that the world's population had doubled in just four decades. If present trends continue, it will hit 9bn by 2045/50. Investors should care about that. Demographics are important over the medium and long-term. The tricky bit is trying to translate these trends into anything approaching reliable investment opportunities. In the US, the most successful sectors over the past 40 years have been oil and gas (the index has increased 80-fold) and healthcare (60-fold), according to DataStream. By contrast, international food prices, using the UN FAO index, have merely quadrupled. Would anyone in 1971 really have predicted this, even if they realized – as the US Census Bureau did – that heady population growth was likely for more than 60 years? Absent Armageddon, some population trends are inevitable and therefore potentially profitable investments. Ageing is one. Today, there are fewer than 900m people aged 60 or more worldwide. By the middle of the century that number will rise to 2.4bn. Healthcare and assisted living should remain buys. Urbanization is another. By 2045, two-thirds of the population will live in urban areas, compared with half today. Construction opportunities and demand for environmental services must surely follow. The outlook for food, though, is less clear. Production needs to rise by an estimated 70 per cent to feed the world by mid-century. Whether that will drive land prices or agricultural technologies is harder to judge. As Malthus would have discovered, man's inventiveness is easily underestimated.

2011 in Pictures: March 11: tsunami waves crash over a sea wall in Miyako, Japan, after a magnitude 9 earthquake

The worst investment decision ever?

The following is a true story albeit a rather unfortunate one. Of course, it is easy to relate with the benefit of hindsight, and I don't for a moment mean to pass a value judgement on it, but most pundits will more than likely agree, tongue-in-cheek, that this has to be the worst investment decision ever. What brought it to light was the auction in New York on 14 December of the original documents that founded Apple Inc. The three documents were signed by Steve Jobs, Steve Wozniak and Ron Wayne on 1 April 1976. Ron who? Well, it now transpires that Ron Wayne was a venture capitalist at the time and was party to the formative company, holding 10% of the company at its inception. But only eleven days later, he sold his 10% and there ended his association with Apple.

Apple Inc founders Steve Wozniak and Steve Jobs, 1976.

Source: Rianovosti

Okay, so you know where this story is going don't you? Sotheby's estimate auction price for the documents was between $100 000 and $150 000, which proved rather academic, as Eduardo Cisneros, the CEO of the Cisneros Corporation, finally secured the documents after having to bid $1.59m for them. But here's the punchline: ahead of the auction Bloomberg traced Ron Wayne and asked him about the documents and why he had sold his 10% in Apple so soon after the inception. I won't relate his story here, other than to point out that when asked if he would be bidding to get the document back, his rather sad answer, accompanied by a shy chuckle, was that "no, I could never afford them". Pity about that – had he just hung on to his 10% in Apple, his equity stake alone would have been worth $37.6bn today. I know, I know, hindsight and all that ... but it's a shocklingly interesting story, isn't it?! If you wish, you can read more about it by clicking here.

Moving the masses

Here is some really irrelevant information but it will help us all appreciate what I call "the law of large numbers". As you may be aware, the Spring Festival and New Year in China get under in China about now and last for about a month. During that time, more than 230m Chinese people travel

back home, most of them by train. To put that into perspective, that's equivalent to moving every person in South Africa around the country, five times over in one month!

2011 in Pictures: A top down view from a New York skyscraper

And finally: goodbye to 2011
While it is still fresh in our minds, I have included photos of selected milestone events in 2011. This month they are per kind favour of The New York Times; their article *2011: The Year in Pictures* can be found by clicking here.

And no, the last two pictures of New York and Spain have nothing to with the "Year in pictures" but they are great pictures, aren't they. Seeing this city and country respectively usurped so much of the headlines in 2011, I thought there was sufficient reason to include them for your enjoyment ☺.

2011 in Pictures: Musicians leaving a bullfight in Quito, Spain

Table 2: MSCI returns to 31 December 2011 (%)

	Dec'11	2011
Malaysia	3.8	-2.9
Philippines	3.6	-3.2
New Zealand	3.3	1.1
Indonesia	3.3	4.0
Colombia	3.2	-7.1
Taiwan	3.0	-23.3
China	2.5	-20.3
Thailand	2.4	-5.6
Hong Kong	1.7	-18.4
Japan	0.7	-16.2
EM Asia	0.6	-19.1
Chile	0.2	-22.1
AP ex-Japan	0.0	-18.0
MSCI DM	-0.2	-7.6
Czech Republic	-0.4	-11.3
MSCI EM	-1.3	-20.4
Australia	-1.7	-14.8
Korea	-1.7	-12.8
Peru	-1.8	-23.9
LatAm	-1.9	-21.9
Mexico	-2.1	-13.5
South Africa	-2.2	-17.3
Brazil	-2.4	-24.9
Singapore	-3.0	-21.0
India	-6.0	-38.0
EEMEA	-6.5	-22.6
Poland	-8.4	-32.6
Turkey	-8.9	-36.8
Egypt	-10.0	-48.8
Hungary	-10.3	-34.7
Russia	-10.6	-20.9

Source: Merrill Lynch

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