MAESTRO INTERMEZZO

Investment Letter | 10th Edition | January 2010

December in perspective – global markets

Last month we began our description of November's market activities with the weak dollar and the impact it had had. Ironically, this month the dollar again features highly, but due to its *strength* this time and the effect the latter had on global markets. The dollar rose 4.6% and 8.1% against the euro and yen respectively as investors took the view the Fed would raise US rates earlier than had initially expected. The yen weakness led to a surge (12.9%) in the Japanese equity market – a very rare event these days. It also spurred the German market to a decent return (5.9%) and was supportive of a general rise in equity markets – the MSCI World index rose 1.7%. The improved sentiment towards the US economy led to further strength in emerging markets; the MSCI Emerging market index rose 3.8%. The dollar strength pushed the gold price 6.1% lower; it had touched an all-time high of $1 226 during the month. The oil price was virtually unchanged while platinum ended the month 1.3% higher. Bonds endured a bruising month, with the Barclays Aggregate US bond index ending down 1.3% - the yield on the US 10-year bond rose from 3.2% to 3.8%, resulting in a 4.9% decline in the return from that bond alone. A notable feature of the month was the strength in technology shares. The Nasdaq ended the month up 5.8%, after rising 4.9% in November. But before one gets too excited about that return, let's refresh our memories as to where the Nasdaq index began the decade. At the height of the tech boom that ended in early 2000, the Nasdaq began the year (2000) at a level of 4069, although it went on to touch 5 133 in March 2000. The very same Nasdaq index ended 2009 at a level of 2269, *still 44.2% lower on the decade*, having never regained its early-2000 peak. More about other returns over the decade in a short while, but please also refer to Table 3 at the end of the report, which not only lists the month's emerging market returns but also list their respective returns over the past decade. It makes for fascinating reading.

Chart 1: Global market returns to 31 December 2009

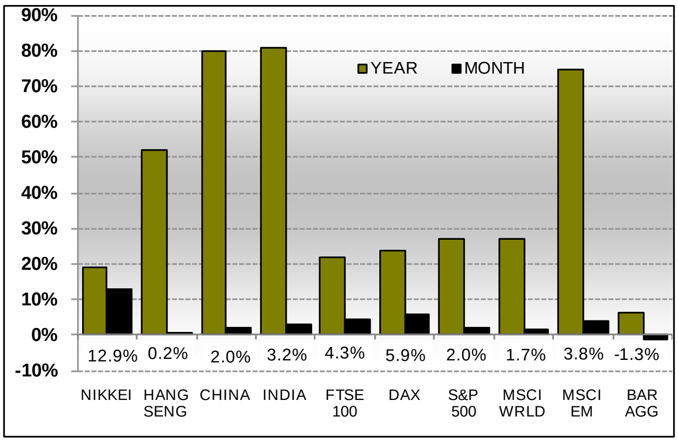
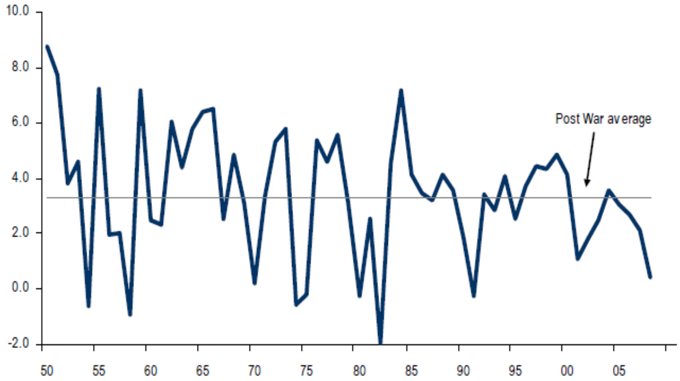


Chart of the month

Rather than focus on one chart this month I am taking the liberty of putting up a few charts, scattered throughout this edition, which provide a longer-term overview of the US economy, which is still the world's largest and most influential. The charts place the dramatic events between 2007 and 2009 in perspective. The shaded portions in the some of the charts represent periods of recession in the US.

Chart 2: Real US GDP – annual % change



Source: Merrill Lynch

Without providing the full explanation for all the charts, allow me to make a few points. The full effect of the 2007 – 2009 credit crisis on the US's economic growth rate is evident from Chart 2. Chart 3 shows the downtrend in core inflation, even before the debit crisis. The more important chart is Chart 4, which shows the huge decrease in US capacity utilization i.e. how much "spare capacity" there is in the US at present. This provides one of the strongest reasons to believe that US inflation is unlikely to rise in the near term, despite massive amounts of monetary support provided by the Federal Reserve. Chart 6 shows that, despite a small reduction, the ratio of US household debt to income remains at very high levels. However, thanks in part to the dramatic collapse in investment markets in 2008 and early 2009, household net worth to income, shown in Chart 7, has returned to the average that prevailed since the early 1950s.

The Copenhagen climate change summit

What can we say about this failed summit that has not been said already? Probably very little, but in our humble opinion the failure of the conference is so important we need to draw your attention to it once again. For a long time we have regarded climate change as a material consideration in our investment decisions, but given the events in Copenhagen in December we are now elevating it to one of our "Big Picture" themes. There are not many direct ways to manifest this theme in our local portfolios but it is going to play an increasing role in our global investment decisions (implemented within Central Park Global Balanced Fund).

The most obvious reason why climate change is important is that we all live on the same planet, which is being subjected to increasing threats to its very survival. This is one risk that is impossible to avoid and very difficult to manage. Another way of thinking about this risk is like the proverbial frog thrown into a pot of cold water, only to have the water temperature slowly increased to boiling point. Presumably the frog enjoys the warmer water initially, blissfully unaware that it will be his eventual undoing. At some point he will come to realise his fate, but by then it is too late.

So it is with mankind and climate change. We can ignore it and perhaps get away with it. But our children will be unable to avoid it, and neither will their children. It will slowly start to affect our lives in different ways. We have already watched global catastrophes increase in frequency, though none have really affected us that closely. But that may change sooner than we can imagine. The global media make it almost entertaining to watch as the crises sweep far flung corners of the globe, but it is not inconceivable that in five years or less, these life-threatening events will be closer to home. Already, even as I write, the Garden Route is struggling with its worst drought in 132 years. The price of water has rocketed and locals are being forced to change their lifestyles. Farmers are giving up their land.

There are no immediate solutions, which is why the Copenhagen summit was so important. By all accounts, it failed dismally. With so much at stake it is shocking that the so-called "leaders" of the world's largest developed and developing countries, after four years of preparation, two years of detailed negotiation, and building on the foundation of the Kyoto protocol established 12 years ago, could only produce a non-binding *three-page* accord that carries no weight at all. And it would appear the only reason the eventual signatories (US, China, India, Brazil and South Africa) were party to the document was that they happened to be in the same room before President Obama decided to fly home, pleading snow as the reason for leaving early. Is this really the best our world leaders could do on the most pressing issue facing mankind and the planet we live on?

Perhaps the conference and the "Copenhagen accord" were best summed up by the Chinese chief negotiator, Su Wei. Bearing in mind the importance of China in the matter of carbon emissions in the future and despite China being a signatory to the accord, Wei said "This is not an agreed accord, it is not an agreed document, it is not formally endorsed or adopted". Telling comment on what should be seen as only the start of another slow, global crisis.

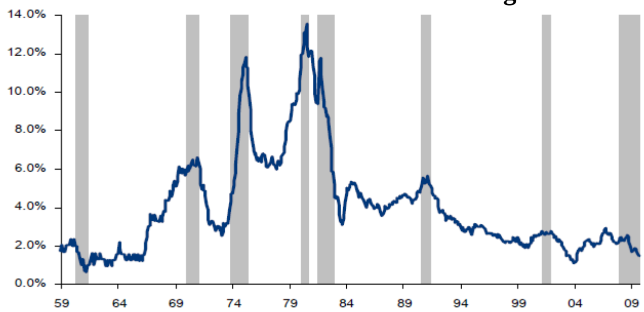
What is a sukuk?

If you have read about any aspect of the recent Dubai crisis, you would have come across the term "sukuk". We thought it appropriate to take a closer look at this unique instrument.

The word "Sukuk" (the Arabic name for a financial certificate) refers to the Islamic equivalent of a bond. Sukuk securities are structured to comply with Islamic law and its investment principles, which prohibit the charging or paying of interest. Sukuk bonds replace interest payments with a promise to share profits; investors become effective owners of the underlying assets, rather than secured creditors. While a conventional bond is a promise to repay a loan, sukuks constitute partial ownership in the underlying debt or investment. Sukuks offer investors a fixed return on their investments which is similar in appearance to interest in that the return is not necessarily dependent on the risks of that particular venture. The return on such assets takes the form of rent and is evenly spread over the rental period. The productivity of the asset forms the basis of the fixed income stream and the return on investment. Given that there is an asset underlying the value of the certificate, there may be, depending on the value of the asset, more security for the investors involved, accounting for the additional appeal of sukuks as a method of financing. The most commonly used sukuk structures attempt to replicate the cash flows of conventional bonds.

The appeal of the market has grown beyond banks and companies that want to meet Islamic guidelines, to investors in the US and Europe who, for example, have started to buy sukuk bonds to gain exposure to Middle Eastern banks. In November General Electric's financing arm became the first western industrial company to issue a sukuk bond with a $500m deal completed in an effort to attract a new pool of investors. HSBC estimates the total Islamic outstanding debt to be $822bn, of which $17.2bn is listed on the Dubai exchange. However this market size is a mere drop in the global bond ocean and is smaller than the value of new bonds issued by non-financial companies in 2009 alone.

Chart 3: Core US inflation – annual % change



Source: Merrill Lynch

A few quotes to chew on

America's banks received extraordinary assistance from American taxpayers to rebuild their industry – and now that they are back on their feet we expect an extraordinary commitment from them to help rebuild our economy ... I did not run for office to be helping out a bunch of fat cat bankers. US President Barack Obama.

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In principle the rise of China is no different from the rise of the UK in the first half of the 19th century, when British production increased rapidly and the price of textiles fell by 80% within 50 years. But China has as many people as the combined populations of all developed countries including the US, Europe, Japan, Australia and Russia. That makes a big difference to the impact of this transformation. The impact is most evident in consumer goods and primary commodities. In the past ten years, nearly half of China's manufacturing output supplied other countries, lowering living standards everywhere. At the same time China has become the most important source of demand for raw material producers. It is the largest buyer of iron ore and other non-ferrous metals as well as one of the biggest buyers of cotton and soybeans. More than half of the world's steel and cement are consumed in China. China has also become the world's largest net savings provider, exporting $400bn in capital each year to the US and Europe. This does not mean that China is richer than the US or Europe. While China has more than $2 000bn in foreign exchange reserves the US and Europe each has about five times more fixed capital, maybe ten times more ecology wealth and much more invaluable intellectual wealth and capital. But no matter how strange it may seem, China is today the largest exporter of capital. Guo Shuqing, Chairman of China Construction Bank.

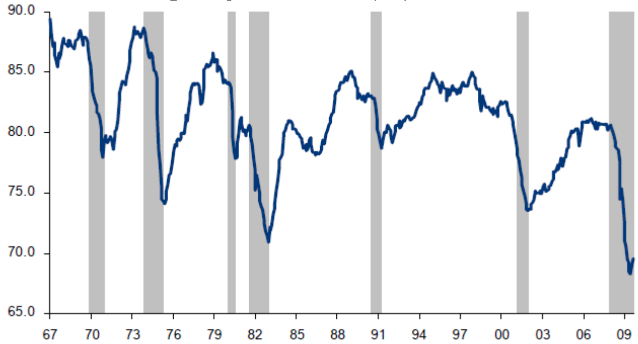
By number and by nature, our banks are stronger and healthier than at any time in history. Liao Min, Director General of the China Banking Regulatory Commission General Office.

We are living through the end of 500 years of western ascendency … the fact remains that Asia's latest and biggest industrial revolution scarcely paused to draw breath during the 2007 – 2009 financial crisis. And what a revolution! Compare a tenfold growth in GDP in the space of 26 years with a fourfold increase in the space of 70. The former has been China's achievement between 1978 and 2004; the latter was Britain's between 1830 and 1900. Or consider the fact that the US GDP was more than eight times that of China at the beginning of (the past) decade. Now it is barely four times larger. … China will overtake America as soon as 2027: in less than two decades. Niall Ferguson, Professor of History at Harvard University.

The surge in OECD Budget deficits and borrowing needs is creating unprecedented challenges in government bill and bond markets. Amid continuing uncertainty about the pace of recovery, as well as the timing and sequencing of exit strategies, gross borrowing needs of OECD governments are expected to reach almost $16 000bn in 2009, up from an earlier estimate of $12 000bn. In 2010 the OECD area-wide fiscal deficit is projected to peak at a post-war high of about 8.25% of GDP, while the tentative borrowing outlook for 2010 shows a stabilizing picture at about $16 000bn. Another marker for the scale of the challenge is the size of outstanding debt. In 2007, for example, total marketable debt of the central governments of Japan, the US and Eurozone stood at nearly $21 000bn. In 2009 it is projected to be more than $27 000bn … Over time, a return to a prudent medium-term fiscal strategy is an essential element of any credible exit strategy to bring debt service costs under control. Hans Blommestein, Head of public debt management at the Organization of Economic Cooperation and Development (OECD).

Ten years ago the big worry was that rogue technology would wipe out half of the world economy. Today, with businesses and workers struggling to the end of the decade, the groundless fears over the Millennium bug seem almost quaint by comparison with what actually happened. It turned out to be bankers rather than computer glitches that wreaked havoc. And the economic dislocation caused by the biggest financial crisis since the 1930s will not dissipate as quickly as the fears over Y2K. Alan Beattie, Financial Times analyst.

Chart 4: US capacity utilization (%)

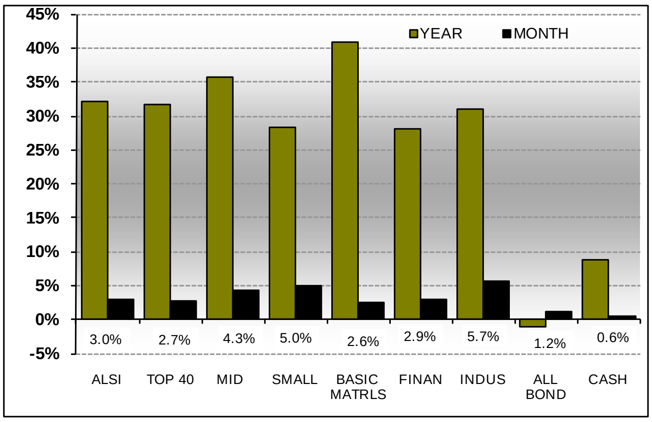


Source: Merrill Lynch

December in perspective – local markets

Local investment markets ended the year on a positive note, but like their offshore counterparts, were heavily influenced by the dollar's strength. As explained earlier the rand firmed 0.9% but that didn't stop the All Share index from rising 3.0%. The industrial index rose the most out of the three major indices, climbing 5.7%, followed by financials (2.9%) and basic materials (2.6%). The mid and small cap indices posted gains of 4.3% and 5.0% respectively. The top performing sub-sector was the household goods sector (read Steinhoff) and the worst was, not surprisingly, the gold sector, which ended the month 6.8% lower on the back of the firm rand and weak gold price. Speaking of the gold index, despite the excitement around the high (and record) gold price – it rose 27.6% in 2009 – the gold index ended the year only 7.8% higher than where it started. And it must go down as one of the most volatile indices on the market: of the twelve monthly returns during the year, five were negative and seven positive, five were high double digit returns (three positive and two negative) and the range of returns was an astonishing 48.7%, from -20.8% to 27.9%. And the latter returns occurred in consecutive months! Only 7.8% in 2009 for having borne all that risk and volatility? You can have it! Finally, let me list for the record the 25.6% rise in the rand against the dollar in 2009, making it the second strongest currency in 2009 after the Brazilian real. Those who have your wits about you will soon realise that offshore investors into the SA equity market reaped a handsome 65.9% from the All share index in dollar terms in 2009. But before you start gnashing your teeth with jealousy, remember those same foreign investors lost 43.2% of their dollars in the SA market in 2008. I hate to say it but the past two years of dollar returns in the SA equity market make the gold index look like a walk in the park!

Chart 5: Local market returns to 31 December 2009



The past decade – in returns

It is hard to believe that a decade has passed since we breathed a sigh of relief that our computers had not crashed as a result of the dreaded Y2K bug! But indeed it has, which affords us the opportunity of reflecting on the returns generated by asset classes and indices during the decade. A selection of results is shown in Table 1. I encourage you to go through them; they are very revealing. We will devote more time analyzing them in the December 2009 Market Commentary.

The shape of things to come

In the May 2009 edition of *Intermezzo* we highlighted the fact that during the years after the Great Depression the US ***marginal tax rate*** rose to 95%. Many readers greeted that fact with bemused indifference but now, scarcely 8 months later, we can report that the UK government has slapped a 50% tax rate on "bankers' bonuses" (a term that seems deliberately poorly defined) above £25 000. This tax is over and above the usual tax regime, which also sees the marginal tax rate in the UK rise to 50% in April 2010. In similar vein Greece implemented a 90% tax rate on senior bankers in the private sector and an outright ban on bonuses for the public sector. In Ireland, another country struggling to regain investor confidence, public servant salaries were cut by between 5% and 20%. Unemployment benefits and child rebates were also slashed. In addition, a €200 000 levy on anyone domiciled in Ireland earning more than €1m and whose Irish wealth exceeded €5m, irrespective of their tax residency, was implemented. Extreme measures for extreme times ... this movie isn't finished yet.

Table 1: Returns over the past decade to end-Dec 2009

	Absolute return (%)	Compound annual return (%)	2009 Return (%)
Japan (Nikkei 225)	-44.3	-5.7	19.0
Hong Kong (Hang Seng)	29.0	2.6	52.0
Germany (the Dax)	-14.4	-1.5	23.9
UK (FTSE 100)	-21.9	-2.4	22.1
US (S&P500)	-24.1	-2.7	27.1
S&P Financials (XLF)*	-37.6	-4.6	15.0
S&P Mid cap index	64.5	5.1	35.0
S&P Small cap index	71.0	5.5	23.8
MSCI World index	***-17.8***	***-1.9***	***27.0***
India (S&P CNX)	259.3	13.6	88.6
China (Shanghai Comp)	139.8	9.1	80.0
Russia (RTS)	863.01	25.4	128.6
MSCI Emerging market index	***102.1***	***7.3***	***74.5***
JSE All share index	***331.3***	***15.7***	***32.2***
JSE All share index (US dollar return)	***170.8***	***10.5***	***65.9***
JSE Basic materials index	536.6	20.3	40.9
JSE Financial index	168.1	10.4	28.0
JSE Industrial index	262.6	13.8	31.0
JSE Mid cap index	499.2	19.6	35.7
JSE Small cap index	587.6	21.3	28.3
JSE All Bond index	***171.7***	***10.5***	***-1.0***
Cash (Alex Forbes Money market index)	***135.5***	***8.9***	***8.9***
Barclays Capital Bond indices: **			
US	85.1	6.4	6.2
UK	71.7	5.6	N/A
Europe	70.5	5.5	7.2
CSFB Tremont Hedge index	92.0	6.7	20.5
Brent (Oil)	209.0	11.9	94.1
Gold	289.4	14.7	27.6
CRB Commodity index	38.1	3.3	23.5
Euro dollar	42.2	3.6	3.2
Sterling dollar	8.0	0.8	12.3
Rand dollar	-16.6	-1.8	25.6

* Exchange traded fund equivalent
** from 31/12/99 to 10/12/09

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A concern shared by many investment professionals, including Maestro, is that of "***sovereign risk***". This risk relates to the increase in the issue of sovereign debt as governments issue unprecedented amounts of debt (bonds) to fund expansionary (rescue) fiscal policies. Sovereign risk specifically relates to the threat of a government bond sell-off and at worst a default of a leading global economy; the Greek economy is very relevant in this respect as investors watch anxiously to see whether Greece will be the first "sovereign casualty". To put bond issuance in perspective the US, Eurozone, UK and Japan have issued a record $3945bn in bonds so far (mid-December 2009) this year. That represents an increase of 86% over the amount issued in 2008 and a 146% on 2007 issuance. The biggest bond issuance has been in the US which has issued $2 110bn, up from $886bn in 2008. Our clients will be familiar with our Big Picture theme of "*The Lost (US) Decade*" which specifically raises our concern about the extent of US debt issuance. The Eurozone has issued $1 350bn from $967bn in 2008. What makes sovereign risk more real is that most governments are expected to continue issuing large amounts of debt and in many instances the quantities are expected to increase even further. It also places the prevailing level of very low interest rates in perspective. Just imagine if global investors caught fright and pushed bond prices lower and yields (interest rates) higher. Government funding costs would then increase dramatically – hardly the stuff a stable investment environment is made of and a prospect governments could ill-afford in their present state!

Chinese stock exchanges raised double the amount of money in ***initial public offerings*** (IPOs) than US exchanges in 2009. Apart from in 2006, the largest amount of capital has been raised in the US every year since 1995 – until this year. Hong Kong alone raised more ($27.2bn) in 2009 than the US did ($26.5bn) while mainland Chinese exchanges raised $24.4bn. Two interesting aspects of the IPOs are worth noting: firstly, of the capital raised on the Hong Kong exchange most of it was raised for mainland Chinese companies and secondly, despite the record sums raised on Chinese exchanges, IPO activity on the Shanghai and Shenzhen exchanges only resumed in June, following a nine-month suspension imposed by the authorities.

While many readers were having a wonderful summer holiday, many ***soft commodities were reaching record prices.*** The prices of white sugar, cocoa, coffee and rice are all trading at or are close to all-time highs. I humbly remind you of another of our Big Picture themes, namely "Security of Supply" which speaks to the looming shortages of commodities around the world in years to come.

Early in December ***Mexico***, the world's sixth largest oil producer, ***hedged its entire expected 2010 oil exports***, in so doing guaranteeing a minimum price of $57 per barrel. The deal cost Mexico $1bn. Last year it hedged its 2009 oil exports at $70, which now looks like it will net the nation a $5bn profit. Do you think Mexico knows something about the oil price that we don't? Or is it just a big gamble? This time next year we will know the answer.

For the record

Table 2 lists the latest returns of the mutual funds under Maestro's care. You can find more detail, including the latest Maestro Equity Fund Summary, by visiting our website at www.maestroinvestment.co.za. Returns include income and are presented after fees have been charged.

Table 2: Returns of funds under Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	Dec	**4.0%**	**25.3%**	**25.3%**
Maestro equity benchmark *	Dec	2.8%	30.7%	30.7%
JSE All Share Index	Dec	3.0%	32.2%	32.2%
Maestro Long Short Equity Fund	Nov	**-5.6%**	**6.2%**	**1.6%**
JSE All Share Index	Nov	2.1%	28.4%	30.3%
JSE Financial and Indus 30 index	Nov	0.2%	25.6%	27.6%
Central Park Global Balanced Fund ($)	Nov	**0.6%**	**13.9%**	**16.5%**
Benchmark**	Nov	2.2%	15.2%	18.9%
Sector average ***	Nov	1.6%	23.0%	24.7%

* 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 ($)

Why we love this job – Example 3

This month we continue our "Why we love this job" series by examining another real-life case study. Sadly the story is my own, which makes it all rather real (and costly). I share it in the hope that many will read it and draw their own conclusions. My intention is not to knock any institution. So the life assurance company in this instance will remain nameless, but I am, as is Maestro, committed to speaking out about what we believe to be unsavoury practices in our profession and to alert potential investors and purchasers of financial products to some of the well-hidden strings that are inevitably attached to the latter. Many financial products on offer do not have investors' interests at heart, but rather favour the vendor and seller of the product.

Let me start right with the moral of this story: we have long held the view that many investment products sold by big institutions in general and life companies in particular, are very expensive. The reporting on them is poor and the service that accompanies them is non-existent. Let me be clear; I am not suggesting these organizations don't have a role to play or that life assurance is not worth considering. What I am saying is that, at least in my experience – as you will see in a moment – the investment products they and many big institutions offer, are often expensive, less than transparent and quite frankly a rip-off. Those are harsh words, but it you don't agree with me, read on.

Just more than 20 years ago, as a newly married young man ready to take on and conquer the world, I thought it would be wise to take out some life and disability cover. I entered into a contract i.e. bought a policy that provided the latter, which came neatly wrapped as a "Flexidowment with Performance Profits with Supplementary Benefits". It sounded pretty good then – it does even now – but sadly there was more to it than that. Pity I didn't know then what I know now, but be gentle in your criticism – I was only 26 at the time and still very wet behind the ears! For the record, the monthly premiums were R50.00 and the death and disability cover were for an amount of R47 303.00. I still believe my intentions were right – these are important risks to cover, it is important to start as early as possible, and no other institution that I am aware of can provide this cover other than life companies. So far, so good. In addition, subject to a few conditions, which quite frankly even now I can't fully understand, I would receive the "balance in the Accumulation Account" provided I was still alive on 1 May 2008, which is when the policy matured.

What I should have paid more attention to was the following: firstly in the "Policy details" section the breakdown of premiums that shows R46.89 will go to Basic benefits (still not sure what that is) and R3.11 to Basic Life Cover. Secondly, in a separate section under General Provisions, Clause 6 lists the "Expense charges". These include a monthly levy of 7% (eish!!) as well as a policy fee of R1.50 plus a R0.60 payment fee for ... well, er ... just paying the premium, I guess. The reasons for the latter fee are not even given. No further costs are listed in the policy document. But before you wonder why I am getting so upset about a few cents here or there, have you started adding all the expenses up, bearing in mind that my humble, hard-earned premium was only R50.00?

You can see where this is going, can't you? By the way, I can't even remember who sold me the policy. If that person can and he happens to read *Intermezzo*, please get in touch with me. I'd love to try and claw back some of my losses☺. So let's recap: I pay R50.00 a month for twenty years in return for R47 303.00 of life and disability cover and the hope that I will get something back if I survive the policy.

Fast forward twenty years to the policy maturity date, 1 May 2008 and add on about a year it took to get *all* the relevant information from the life company (and a delay on my part due to some cession-related issues and of course working hard for Maestro clients and writing long *Intermezzos*). I was informed that the policy proceeds of R32 834.84 were ready to be claimed. This is where it starts getting interesting. After no joy at the "Customer Communication Centre" - remember my comment about poor service? - I mean, how long must one listen to a silly ditty and "your call is important" etc before someone actual answers the phone!? I eventually called in a few favours and managed to get hold of a really kind person who knew what I was looking for. To the company's credit (*Ed:* perhaps a function of other similar irate policyholders) they provided me with all the details I requested. Here's the outcome.

Let's take my first R50.00 premium. From the R50.00 the following expenses were deducted: R0.60 payment fee, R3.14 premium levy, R1.50 admin fee and R9.17 for the cost of cover and benefits. The net result? Only R35.59 of my R50.00 premium actually went into the market. I make the following observations:

- Only 71.2% of my premium went into the market
- That said remember that R9.17 covered the cost of the life and disability cover. It is more accurate to say that only R44.76 of my R50.00 premium went into the market. Nevertheless the fees totalled a whopping 10.5% of my premium.
- It remains unclear to me what the premium levy and payment fee, totalling R3.74 or 7.5% of my premium, were for? It is obvious what the admin fee of R1.50 is for, although at 3% of my premium it is exorbitantly high. After all, a regular unit trust investment will provide all the admin *and* investment management for about half this amount i.e. 1.5%. I guess nobody told the life companies that.
- Is it coincidence, when I deduct all the fees *other than the cost of the life and disability cover,* even though the amounts vary marginally over the 20-year life of the policy, that they total exactly 9.28% of my premium every month? That's what this policy cost me in fees each year – 9.28%.

Do you think that is reasonable? If that doesn't sound like a big deal to you, consider the following:

- If I had simply invested that 9.28% i.e. the amount of money deducted as fees from my policy, into the All share index over the 20-year duration of the policy, it would have grown into an amount of R9 270.56. That needs to be compared to the actual policy payout of R32 834.71 i.e. the non-life and disability costs that were levied to my policy equated to nearly a third (28.2%) of the actual payout.
- Incidentally, had I invested those costs i.e. the 9.28%, into the actual fund into which my premiums were paid i.e. the fund the life company managed ("With

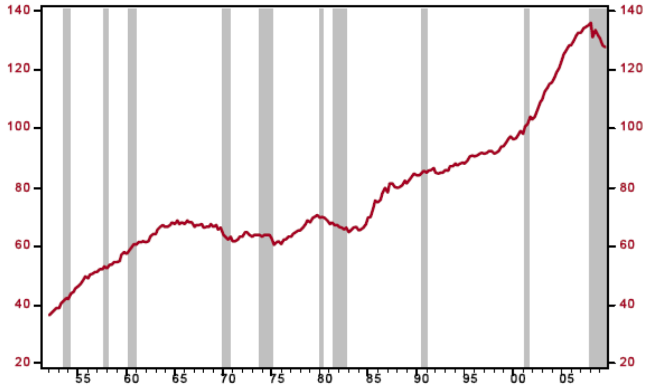
performance profits" remember?) the money would have grown to R4 423.75 i.e. less than half of what the All share index earned over the same period.

- Had the premium (R50.00) less the cost of life and disability cover (R9.17) i.e. an amount of R40.83, been invested into the All share index, the end result would have been R79 231.17 – a staggering 141.3% more than what I actually received as a payout (R32 834.71).
- To rub salt into my own wound and for the record, had I simply invested my R50.00 into the All share index over the 20-year period, my money would have been worth R99 898.32 – more than triple my payout. But I appreciate that I would not have had any life or disability cover, which was the primary reason for me purchasing the policy.
- When seen in the harshest light, *the 20-year policy cost me R46 396.46*, being the return had the premiums less the cost of life cover been invested into the All Share index (R79 231.17) less what I received as the policy payout (R32 834.71).

You have been very patient in reading all of this – assuming you have got this far into the document – and putting up with all the data. I have gone into much detail to make you appreciate what actually happened and what lies behind similar products out there. You can draw your own conclusions from this example; they may well be different from mine. If I had to summarise the lessons I learnt from this costly and unfortunate experience, they would include the following:

- *Investment-related products bought from a life insurance company are very, very expensive and should be avoided at all costs.* This is a contentious statement, but given my experience you would probably understand why I arrive at this conclusion.
- *Never underestimate the compounding effects of costs*, especially when they are as high as those of a life company.
- *Choose wisely when investing relatively small amounts over a long-period of time*. Consider this: I paid through my neck (9.28% per annum for 20 years) for an investment related product that yielded a dud return. During that time I received no feedback on the investment, other than an annual one-pager that I couldn't understand, which actually contained nothing about the investment itself, and the institution had absolutely no relationship with me as their client.
- *Make sure you select the right vehicle for investment at all times*. Failure to do so can prove to be very expensive. As an alternative, assuming for a moment I didn't need any life cover, I could have invested the R50.00 into a unit trust, which would have cost me about 1.5% per year and on which I would have received monthly or quarterly reports and I would have been able to follow my investment at my leisure based on that information received. Oh, I would also have made more than double (141.3% remember) the return I got from the life company. When all is said and done, there are few vehicles better than general equity unit trusts for long-term investment purposes.

Chart 6: US debt to income ratio



Source: Merrill Lynch

File 13 – things almost worth remembering

TeliaSonera, a Swedish mobile telecoms operator, rolled out the first fourth generation (4G) wireless service in central parts of Stockholm and Oslo. The service offers mobile broadband up to ten times the speed of 3G technology. The service will initially only be accessible through personal computers as no 4G mobile handsets have been launched yet.

Speaking about mobile telecoms, we all know that mobile telephony has changed the face of telecommunications and generally the way in which we connect telephonically, but we forget at times just how radical its effect has been on those who never had benefit of the "old" fixed line technology i.e. in the pre-mobile days. I came across the following data from the International Telecommunications Union (ITU) that gives an indication of just how radically mobile telephony has grown in Africa: in 2000 Africa was home to 11m mobile subscribers and 3m internet subscribers. By the end of 2008 (just more than 12 months ago) there were 32m internet subscribers and 246m mobile subscribers. 95% of those subscribers were prepaid users. Between 2000 and 2008 cellular penetration rose from 2 in 100 inhabitants to 33 in 100. It is also interesting to read of the strong perception (for many users a reality) that using or having a cellphone helped you get a job – an excellent example of "enabling technology"!

Still in Africa but on a less positive note, I read recently that in 2001 273kg of cocaine was seized off the coast of West Africa but by 2007 this has ballooned to 14.5 tonnes. The United Nations Office on Drugs and Crime (UNODC) estimates that the total cocaine trafficked through West

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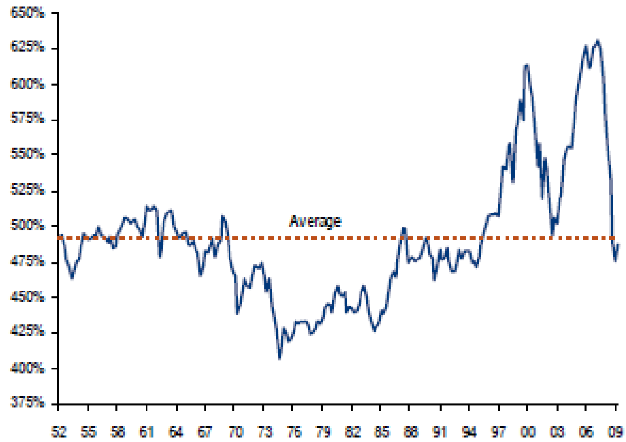
Africa is in the region of 50 tonnes, worth a total of $2bn. This development comes on the back of a 1990s decision by cartels in Columbia, Mexico and Venezuela to stimulate the usage of cocaine in Europe. The US consumes about 40% of the world's cocaine and the cartels decided that that market had reached saturation point. They therefore turned their sights onto Europe, where the usage of cocaine has apparently soared in recent years, and are now using West Africa as the hub for the trade into Europe.

From West Africa and drug trafficking (remember it is estimated that the Taliban garners about $100m per annum out of the opium trade) we take a short hop, via Afghanistan to Oslo, where the man who had during the previous week authorised the largest (30 000) troop deployment in 40 years, accepted the Nobel Peace prize. The award to US President Obama left many people rather perplexed - not least among whom was the President himself - because not many could understand exactly what he was being "awarded" for. Besides, the decision to award the Peace Prize to him was made scarcely weeks after he was sworn into office. A recent survey showed that only 26% of Americans believed he deserved the award. But to his credit, Obama acknowledged that "his accomplishments were slight" compared to those who had won the award in the past, and there were many others that were "far more deserving" than he was.

Chart 7: US Household net worth to income (%)



Source: Merrill Lynch

I'm sure that many parents of young children and teenagers will identify with this snippet: China has about 338m internet users, 70% more than last year. Of those, 115m or 34% are below the age of 19 and 32% of them are students. For most users the internet has opened a world hitherto inaccessible. Bearing in mind that most families consist of only one child – hence he or she has no siblings – the internet represents a world where they can "chat" to friends, meet new ones, download movies and music and comment on current affairs. But sadly, internet addiction is becoming an increasing problem and the authorities (and parents) are struggling to deal with it. In a recent case, parents of Li Congcong banned him from going to an internet cafe. That night he put poison in their soup; within hours they were both dead. He is now serving a 20-year jail sentence. While not all cases are so extreme, it brings into focus the watershed that the internet represents in a culture that has been introduced to the full abilities of the net faster than any other, yet is also struggling to cope with socio-economic changes, occurring at breakneck speed, that frequently undermine traditional values.

In the spirit of the Silly Season and bringing this very long edition to a close, I can't help drawing your attention to the following. It is an extract from an FT interview with US property mogul and TV star Donald Trump.

Q: How would your PA describe you?
A: Brilliant, extremely focused, high energy, demanding but with a great sense of humour.
Q: What are your three best features?
A: My hair, my looks and my charisma. (*Ed:* pity he forgot about his other most important traits: modesty and humility).
Q: What are your three worst features?
A: I can't think of any.

Finally, to get you into the swing of things ahead of the World Cup soccer final, herewith two photos of the Cape Town stadium. The first shows the stadium at dusk, with the V&A Waterfront in the foreground. The second, overleaf, was taken around the time of the opening ceremony. The original source of the photos is unknown. Enjoy!

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Table 3: MSCI returns to December (%)

	Decade	2009	Dec'09
Colombia	1,529	84	3.3
Peru	952	72	-6.6
Czech	903	28	-5.1
Brazil	520	129	1.6
Egypt	371	40	7.3
Russia	326	105	3.3
Indonesia	322	128	5.7
India	274	103	3.5
Chile	269	87	8.6
Mexico	240	57	2.8
Australia	232	77	1.7
South Africa	232	58	5.0
Hungary	180	78	-1.2
Morocco	173	-5	-1.2
China	150	63	0.5
Korea	149	72	8.3
Malaysia	133	52	0.6
Thailand	133	77	7.3
Poland	123	43	-2.5
Israel	114	55	5.8
Singapore	64	74	5.5
Hong Kong	54	60	2.1
Turkey	45	98	19.6
Philippines	29	68	2.7
Taiwan	-1	80	8.5
Japan	-30	6	0.8
EM Energy	452	87	1.2
EM Materials	389	108	3.3
EM Staples	259	71	5.5
EM Utilities	240	57	4.9
EM Health Care	234	42	4.8
EM Financials	199	81	2.2
EM Cons Disc	178	117	7.1
EM Industrials	110	60	5.6
EM Telecom	74	27	1.1
EM Technology	13	109	10.2

Source Merrill Lynch