



A time to reflect

Few investment professionals who watched the tragedy unfold in real time will ever forget September 11, which struck at the heart of the financial community in downtown New York. Everyone I have spoken to remembers that day – vividly. *The Economist* captured the dramatic events, leading with a headline on their cover page that read “The Day the World Changed”. How true the headline was to become; I think most of us also sensed that at the time. No one I have ever spoken to about the event, cannot remember exactly where they were at the time of the attack – that’s how vivid it remains for all of us, now some ten years after the event. In this crazy world we live in we must make time to reflect and remember; the inclusion of the “9/11” pictures in *Intermezzo* this month is such an opportunity. The bulk of pictures were sourced from nj.com.

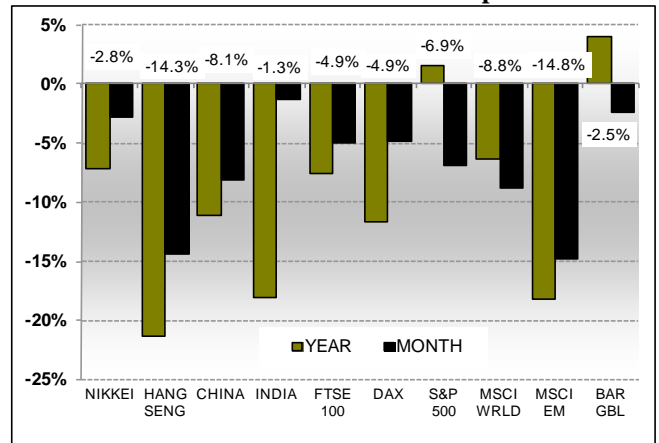
September in perspective – global markets

It is hard to know where to start telling you about market behaviour during September – no matter where I look or start, the news is not good. It is fair to say that the declines in the market are to a large extent the fault of policymakers who continue to either show no urgency regarding their economic problems at hand (which is true of the US) or who are either dragging their feet or are incapable of doing their job properly (a fair description of EU policymakers). Despite a firm undertaking to do so in the first half of the year, Eurozone authorities are still nowhere near putting in place a rescue plan for Greece. In the meantime the crisis deepens, with French banks being the major casualties during September. Italy seems to be the next major concern and Spain’s problems are far from resolved. Perhaps the most influential factor troubling the markets is that, despite evidence that the global economy is slowing rapidly, there is no sign that policymakers are anywhere near to agreeing on a solution, let alone implementing it. The US is in a similar situation. We would argue that the problems there could be worse; there are still a number of politicians who don’t believe the US even *has* a problem. In addition the US political machine is more dysfunctional than ever; with the focus already turning to the next election the outlook for any meaningful improvement is increasingly hard to find. We should not then, be surprised to hear that the September quarter was the worst since the last quarter of 2008, when Lehman Brothers collapsed – at least as far as equity returns are concerned. The UK equity market quarterly decline was the largest in more than a decade. *Not one single market or asset class rose during September* other than the dollar.

The MSCI world index declined 8.9% after falling 7.3% in August. The MSCI Emerging market index fell 14.8%, after a 9.2% decline in August, highlighting concern that growth in emerging markets is slowing rapidly. The Russian equity market fell 21.2%, Hong Kong 14.8%, China 8.1%, Indonesia 7.6% and Brazil 7.4%. India declined only 1.3%

but in dollar terms the SA equity market declined 16.1! Developed markets were also weak; the US market fell 7.0%, Germany 4.9% (remember it fell 19.2% in August) and the UK 4.9%. The US mid and small cap indices declined 10.7% and 10.4% respectively.

Chart 1: Global market returns to 30 September 2011



Unlike last month when their return was positive, global bond markets produced negative returns in September. The Barcap Global Aggregate bond index fell 2.5%. On the currency front the dollar proved to be the “currency of no choice”; it rose 7.3% against the euro, 4.5% against the pound and 12.6% against the Swiss franc. It was even firmer against emerging currencies; it rose 16.9% against the Brazilian real, 14.9% against the rand, 10.5% against the Russian rouble, 10.2% against the Aussie dollar and 6.4% against the Indian rupee. These are extraordinarily large monthly returns and reflect the widespread panic across global markets so evident throughout the month.

Illustration 1: New York on the 5th anniversary of Sept 11



The strong dollar combined with the slowdown in global growth didn’t auger well for commodity prices, which were universally weak; the price of oil fell 10.5% while the precious metal complex had silver, platinum and gold down 26.4%, 18.1% and 10.8% respectively (we will have more to say about gold a bit later in this edition). Base metals saw



copper down 22.4%, palladium 21.6%, nickel 17.1% and iron ore 10.4%. The CRB Commodity index declined 13.0% while the S&P GSC index declined 9.8%. Bear in mind, these are *monthly* declines. You will realize from the above that across and within asset classes, there was simply no escaping the tsunami of bad news and price declines.

Illustration 2: New York on the 5th anniversary of Sept 11



What's on our radar screen?

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

- *The South African economy:* inflation for August surprised the market by being lower than expected. The monthly increase was only 0.17% (0.85% in July), bringing the annual rise in prices to 5.3%, similar to the inflation rate in July. Excluding food, fuel and electricity, the so-called “core inflation” for the year to August eased to 3.8% from July’s 3.9%. The Reserve Bank also kept interest rates on hold, with the Bank’s implicit comment clearly indicating a change from concern about inflation to concern about future growth rates. It revised its 2011 and 2012 growth rate from 3.7% and 3.9% to 3.2% and 3.6% respectively.
- *The European economy:* **Greece’s** initial estimate of second quarter economic growth of -6.9% turned out to be even worse; the final figure was -7.3% on an annualized basis. Unemployment rose to 16.0%.
- *The US economy:* August non-farm payrolls was zero, while the July total revised down by 58 000. US economic data has been mixed of late but the slowdown is now well entrenched.
- *Emerging markets:* the inflation rate in **India** rose to 9.8% in August, prompting the authorities to raise interest rates yet again – the 12th time since March 2010 – by 0.25% to 8.25%. In contrast, inflation in **China** declined from 6.5%, a three-year high, to 6.2% in August. Turning to **Turkey**, their economy grew at an annualized rate of 8.8% during the second quarter,

lower than the first quarter breakneck speed of 11.6%. But concerns are rising due to the fact that a lot of the consumption growth is endangering the integrity of the economy. Similar to South Africa when it grows rapidly, the consumer driven growth is placing upward pressure on their current account, which now exceeds 9%. Direct investment covers only about 15% of the deficit, as opposed to about 40% previously, the rest being financed by portfolio flows. And as we know in South Africa, portfolio flows are very fickle and can just as easily go into reverse at the drop of a hat. In terms of sectors, construction grew 13.2%, wholesale and retail grew 13.0% and the financial sector grew 14.3%. What makes the Turkey unusual is that they recently (August) *cut* interest rates by 0.5%, citing as the reason for the cut “the risk of a domestic recession that may be caused by the heightened problems in the global economy”. When measured on a quarter-on-quarter basis, second quarter Turkish growth was 1.3%, better than the 0.0% expected.

Charts of the month

Given that we marked the 10th anniversary of September 11 last month, I thought you would be interested in seeing the un-annualized returns of selected asset classes over the ten years since the tragedy, shown in Table 1.

Table 1: Asset class returns – ten years after 9/11

Asset class	Absolute return (%)
Global equities	66
North America	41
Europe	73
UK	63
Japan	25
Pacific Rim – ex Japan	269
Emerging market	358
Global fixed income	104
Government	111
Quasi-government	101
Investment grade corporate	97
High-yield corporate	132
Emerging market debt	206
Commodities	182
Energy	137
Industrial metals	375
Precious metals	566
Agriculture	82
Cash	21
US dollar	-35

Source: Merrill Lynch

One of Maestro’s **Big Picture** themes is *The Coming of Age – emerging markets’ role in the future*. We came across the following charts, which so neatly depict this theme. Chart 2 depicts the size of emerging and Asian (excluding Japanese) equity markets, expressed as a percentage of all the world’s markets.



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Chart 2: Emerging and Asian (ex-Japan) markets
As a percentage of total world markets



Source: Merrill Lynch

In 1988 the market cap (size) of emerging and Asia Pacific markets, excluding Japan, was only 3%; by 2011 this had increased to 19%. This is by no means a new theme, but has been well underway since 1998. The secular rise of these markets was only interrupted by two major bear markets, first in 1997/8 (the LTCM implosion and the emerging market currency crisis) and in 2008. The notable casualty over this period has been Japan, shown in Chart 3. The US market's history makes for interesting viewing; after rising steadily from 29% in 1988 to 55% in 2003 the US market has deteriorated steadily to its current level of 43% of total world market cap. It is interesting to compare this 43% to the size its economy constitutes, as a percentage of the total global economy, namely 23%.

Chart 3: Japan as a percentage of total world markets



Source: Merrill Lynch

Beware of the base

We often draw your attention to the "base effect" i.e. the importance of the base off which any return is measured. You may recall that September 2010 produced some mouth-watering returns (the MSCI World index rose 9.11%), which began a four-month long period of very strong returns which went on to produce excellent returns across most

global markets for 2010 as a whole. But as you are aware by now, September 2011 returns were very poor. Therefore, when assessing the *annual* returns to September 2011 the high returns of September 2010 are falling out of the base (but were in the annual returns to end-August 2011) and being replaced by very poor September 2011 returns. The Table below quantifies the base effect for selected indices.

Table 2: The base effect – what's in a month?

Market or index	Annual returns to:	
	Sept 11	Aug 11
MSCI World index	-6.4%	12.1%
Japan	-7.1%	1.5%
Hong Kong	-21.3%	0.0%
UK	-7.6%	3.2%
Germany	-11.7%	-2.4%
US - S&P 500	1.6%	18.9%
US - Nasdaq	2.0%	22.0%
MSCI Emerging markets	-18.1%	6.5%
China	-11.2%	-2.7%
India	-18.0%	-7.2%
Russia	-11.0%	19.6%
Brazil	-24.6%	-13.3%
Indonesia	1.4%	24.7%
South Africa	3.6%	16.9%
SA basic material index	0.4%	13.7%
SA financial index	-1.3%	9.7%
SA industrial	7.8%	22.4%
SA gold index	12.6%	8.1%
US mid caps	-2.6%	21.3%
US small caps	-0.9%	23.1%
SA mid caps	3.1%	12.4%
SA small caps	5.4%	12.4%
Global bond market	4.0%	9.1%
SA bond market	-2.1%	9.0%
Euro dollar exchange rate	-1.7%	13.3%
Rand dollar exchange rate	-13.2%	5.4%

Illustration 3: New York on the 5th anniversary of Sept 11



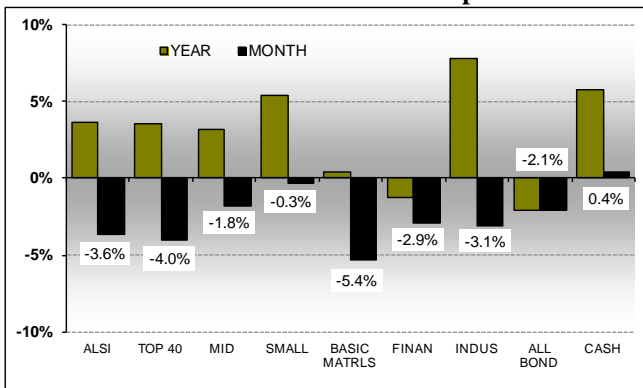
September in perspective – local investment markets

Similar to offshore markets, SA equity and bond markets produced sharp declines in the face of a slowing global economy and continuous stream of bad news out of the developed world. On the face of it the markets held up quite well, but one should not be fooled by the effects of the weak rand. Thus, the All share index declined 3.6% in



September in rand terms but fell 16.1% in dollar terms, making it one of the worst decliners in the emerging market universe. Similarly, the rand was one of the weakest currencies during the month, falling 12.9% against the dollar, 9.0% against the pound and 6.6% against a weak euro. The basic material index led the losses, ending the month down 5.4%. Financials and industrials lost 2.9% and 3.1% respectively. Mid and small cap indices held up well, losing only 1.9% and 0.4% respectively. The top performing sectors were technology hardware, up 11.6%, gold mining 5.7% and pharmaceuticals 5.4%. The worst performing sectors were fixed line telecom, which lost 10.5% on the month, personal goods 10.1% and industrial metals 9.6%. The All bond index lost 2.1% in September, reducing its year-to-date return to 5.1%.

Chart 4: Local market returns to 30 September 2011



A few quotes to chew on

Here are some excerpts of an article *Financial Times* commentator *Lionel Barber* wrote entitled “The end of US hegemony: Legacy of 9/11”. “On the morning of September 11, 2001, America’s prospects appeared as bright as the clear blue sky over Lower Manhattan. The price of Brent crude oil was \$28 a barrel, the Federal government was running a budget surplus, the US economy was turning (albeit imperceptibly) after the dotcom crash. The most powerful nation on earth was at peace. Ten years on, the oil price hovers around \$115 a barrel, the US is projected to run a budget deficit for 2011 of \$1,580bn, the largest in its history; the economy remains deeply troubled after the financial crash of 2008; and America’s military and intelligence services remain at war, battling insurgency and radical Islamic terrorism, from Afghanistan and Pakistan to Niger and Yemen ... In the final resort, the most significant geopolitical development of the past 10 years took place not on the battlefield but in the financial system. The global banking crisis stemmed from flawed regulation and perverse incentives for banks to sell mortgages to poor Americans with no ability to repay, as well as gigantic leverage in the financial system. These distortions were created, in part, by global imbalances driven by Americans living on cheap credit and Chinese exporters and savers contributing to a

vast current account surplus. Until the Great Crash of 2008, this financial merry-go-round spun regardless. Thanks to cheap labour costs, China exported deflation to the rest of the world. China financed the US current account deficit by recycling its own surplus into US Treasury bonds. Now, three years into the financial crisis, the world economy has been turned upside down. The US is diminished, Europe sidelined, and Asia, for now, in the ascendant. Consider the broader historical trend. Developing Asia’s share of the global economy in purchasing power parity terms has risen steadily from 8 per cent in 1980 to 24 per cent last year. Taken as a whole, Asian stock markets now account for 31 per cent of global market capitalization, ahead of Europe at 25 per cent and within a whisker of the US at 32 per cent. Last year, China overtook Germany to become the world’s largest exporter. Chinese banks now rank among the biggest in the world by market capitalization... As for the legacy of 9/11, Gerard Lyons, chief economist of Standard Chartered Bank, says the three most important words in the past decade were not ‘war on terror’ but ‘made in China’. On present trends, he adds, the three most important words of this decade will be ‘owned by China’.”

Illustration 4: New York on the 5th anniversary of Sept 11



In a recent interview, *Standard Chartered Chief Executive Officer Peter Sands* said “We are deeply concerned about the impact on global growth of what is a fairly chaotic set of regulatory and policy initiatives, particularly in the West, and what this means for financial stability and economic growth”. Standard Chartered is one of our holdings in Central Park Global Balanced Fund, our offshore mutual fund (unit trust). *Regulation Strangulation* is one of our **Big Picture Themes**.

For some time we have been highlighting the growing disillusionment (bordering on anger in many cases) by professionals and lay people alike, at the inability of regulators, politicians and policy makers alike to provide leadership and get a firm and rapid grip on the world’s economic problems. Much of the current turmoil in global



investment markets would not have occurred if politicians and policy makers just did their job properly. *Axel Merk, the Chief Executive and Chief Investment Officer of Axel Merk Investments* summed it up perfectly during an interview in August, by saying “I’d rather trust a rumour than a policymaker right now.”

In their September Investment Committee Overview *Merrill Lynch Chief Global Equity Strategist Michael Hartnett* wrote as follows: “Recent policies have not yet forced a reversal in the lead indicators of the 2011 turmoil, namely bank stocks and bond yields. There is no coordinated “big bang” policy approach on the immediate horizon, as politicians remain more interested in buying time rather than fixing the crisis. Policy “morphine” is running out and the lack of fiscal “chemotherapy” (in the form of major structural reform) means real estate, interest rates and bank stocks in the US and Europe will struggle against “Japanification” ... We have written extensively about the lessons from Japan and the risks of the Japanification of assets. We continue to see more similarities (deleveraging, interest rate insensitivity, weak credit trends) than differences (corporate profits, unemployment) between Japan in the 1990s and the US and Europe today”. I am always a bit sceptical about the following kind of charts, but I list it in any event. It does beg a number of questions.

Chart 5: US and Japanese equities in dollar terms



Source: Merrill Lynch

Illustration 5: New York on the 5th anniversary of Sept 11



For the record

Table 3 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 3: The returns of funds under Maestro’s care

	Period ended	Month	Year to date	Year
Maestro Equity Fund	Sept	-2.7%	-9.2%	0.7%
<i>Maestro equity benchmark *</i>	Sept	-3.7%	-2.7%	4.4%
<i>JSE All Share Index</i>	Sept	-3.6%	-5.4%	3.6%
Retirement Funds				
Maestro Growth Fund	Sept	-0.5%	-5.0%	2.7%
<i>Fund Benchmark</i>	Sept	-1.6%	-0.3%	5.5%
Maestro Balanced Fund	Sept	0.0%	-3.0%	3.4%
<i>Fund Benchmark</i>	Sept	-1.2%	0.7%	5.8%
Maestro Cautious Fund	Sept	-1.2%	-0.4%	4.0%
<i>Fund Benchmark</i>	Sept	-1.5%	1.6%	5.3%
Central Park Global				
Balanced Fund (\$)	Aug	-3.3%	-2.4%	12.5%
<i>Benchmark**</i>	Aug	-3.1%	-0.5%	8.1%
<i>Sector average ***</i>	Aug	-4.2%	-1.5%	8.3%

* 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 (\$)

What’s in a number? Quite a bit, it would seem ...

At the risk of throwing too many numbers at you, I would like to share excerpts of a report that Merrill Lynch issued in early July, called *The Longest Pictures*. Given Maestro’s affinity for “The Big Picture” you can imagine how we devoured the report. I would love to share all 81 pages of the report with you, but for your own sanity sake I list below a few of the data we found noteworthy.

- Current short-term US interest rates are at their lowest since 1940. Between the 1930s – 1940s rates stayed at zero for 15 years.
- In 1945 foreigners owned 1% of the US Treasury market; today they own 46% - a record high.
- In 1945 US households owned 90% of US equities; today they own only 36% - a record low.
- Emerging market and Asia Pacific’s share of global equity market cap is at a record level of 19%.
- Japan’s share of global market cap is at 8%, close to an all-time low and down from 44% in 1988.
- In the next 25 years India’s working age population will grow by 300m, more than the current working age population in the US and Germany combined.
- \$1 invested in US large caps in 1824 would be worth \$376; that’s not a mistake; it would be worth \$376 today in nominal terms. But the same \$1 invested in 1824 would be worth \$3.75bn today had dividends been reinvested. (Ed:



now do you understand why we insist that, if possible, dividends should be re-invested? Ah, the power of compounding!

- The three greatest US equity bull markets were in 1860-1872 (when the market rose 332%), 1920-1928 (423%) and in 1982 - 1999 (1 654%).
- The recovery in the US equity market off its March 2009 trough was the second greatest market recovery, surpassed only by the 121% rally in 1932, after the great Depression. 1933 was the greatest year ever for the US equity market, despite the unemployment rate hitting 25% that year.
- The compound annual return of US small caps since 1926 is 17.0% versus the large cap return of 11.9%; they have outperformed large caps in almost 3 out of every 5 years.

Illustration 6: The North and South Pools, which mark where the Twin Towers once stood



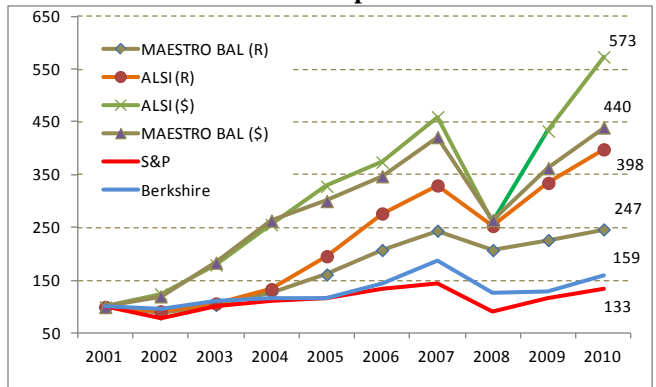
Berkshire Hathaway versus Maestro (or should that be South Africa?)

Last month, I related the tongue-in-cheek challenge that was placed before Maestro when we welcomed our first clients and took their assets into our care. You will recall that the clients suggested that a 10% annual return – in dollar terms – would meet their expectations. We cringed at the challenge but made a note of it and humbly began to manage the assets. Ten years later, it is time to lift the lid on the results of the challenge, the progress of which we continue to monitor every year. But before I disclose the results, what you think they are?

So much is made of Warren Buffet and his ability to make money for shareholders. The media love him and a veritable library of books has been written about him. But would you believe me if I suggested that South Africa has been a far – and I mean far – more profitable avenue for investment than Buffet’s company, Berkshire Hathaway. One of the Maestro team’s biggest frustrations is the lack of appreciation on the part of South African investors of how rewarding the country’s investment markets have been. Year after year we have to defend the country as a unique safe investment haven, to clients and non-clients alike. Numerous investors

have fallen over themselves to *schlep* money out of the country, when one of the world’s most profitable havens has been available right before their very eyes. I can hear the objections already! If that be the case, let the following numbers speak for themselves. You decide for yourself which has been the more profitable investment region or asset class over the past decade. Ah, but what about the rand, you say! I would respond by saying “choose your currency – it has hardly made a difference over the period.” You still don’t believe me? Take a look at the numbers then.

Chart 6: A Maestro balanced portfolio versus Berkshire

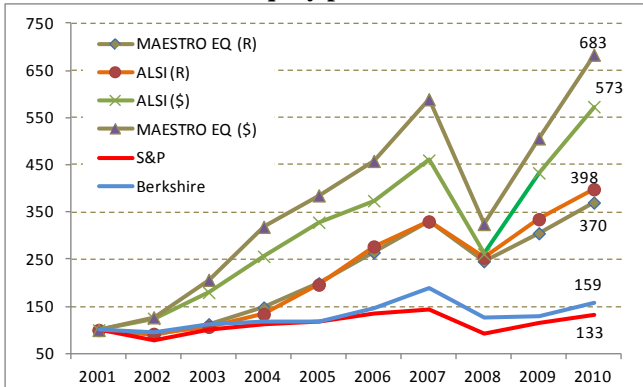


The client, who is also a huge Buffet fan, asked us for a 10% annual dollar return. We were also requested to beat the Berkshire Hathaway return. He mandated us to manage his portfolio on a *balanced* basis i.e. to invest across equities, bonds and cash, and invest some assets offshore. Due to his unique circumstances the portfolio has been a bit constrained in recent years, but has still been representative of Maestro’s management style. The results are shown in Chart 6. The returns are depicted in rand and dollar terms, and have been indexed to 100 at the start of 2001. In the nine years between 2001 and the end of 2010, his R100 of assets, depicted as “Maestro bal” on the chart, grew to be worth R246. In dollar terms this same portfolio would have grown from \$100 to \$440. In contrast the US equity market rose from \$100 to \$133 and Mr Buffet’s efforts, using the Berkshire Hathaway price as a proxy, would have risen from \$100 to \$159. If that is a bit hard to follow, let me list the compound annual return (CAR) of each player for you: the client’s (Maestro balanced) portfolio rose 10.6% in rand terms *each year* over the nine years to end-2010. In dollar terms his CAR was 17.9%, comfortably ahead of the US equity market (S&P on the chart) CAR of 3.2% and the Berkshire Hathaway CAR of 5.3%.

Another one of Maestro’s first clients, who was at the same meeting, agreed that a 10% annual dollar return would satisfy his expectations. However, he mandated us to manage a local equity portfolio only i.e. Maestro had full discretion to invest all the assets into the equity market; we were not permitted to invest offshore. This client’s

subsequent returns are depicted in the chart below, and designated as “Maestro Eq”. By virtue of the fact that more of the assets were invested into the SA equity market than the first client, the returns, shown in Chart 7, are even better.

Chart 7: A Maestro equity portfolio versus Berkshire



In the nine years Maestro has been looking after the assets, the client’s R100 (remember the returns have been indexed to 100 at the start of 2001 to facilitate comparisons) was worth R370, but in dollar terms his \$100 has grown to an astonishing \$683! The All share index has risen from 100 in rand terms to 398 while in dollar terms it has risen to 573. Obviously the US equity market and Berkshire Hathaway share price remain at the same value as they did in the first exercise, namely \$133 and \$159 respectively. Let’s now put these returns into compound annual growth rates i.e. what does the end value equate to in annual terms. The US equity market rose 3.2% per annum over the nine year period to end-2010, the Berkshire Hathaway’s share price produced a return of 5.2% per annum and the SA equity market (denoted ALSI in the charts) rose 16.6% in rand terms and 21.4% in dollar terms. As for the client, his local equity portfolio rose 15.7% in rand terms and 23.8% in dollars – more than twice the 10% dollar return the client suggested – rather unrealistically at the time – would be sufficient.

In summary then we can draw the following conclusions from this real life example:

- The SA equity market has utterly trounced the returns of the US equity market - in rand and dollar terms.
- It has also convincingly outperformed Berkshire Hathaway over the same period.
- Both clients achieved what we thought was impossible at the time, namely a 10% annual dollar return. To put the latter into perspective, remember that the start of the period (the end of 2001) was characterized by the trauma of the “Y2K” tech meltdown and the share market plunge following the tragic World Trade Centre terror attacks; global growth was slowing (in fact the US was on the brink of a short recession) and the rand was at R12.00 to the dollar. Not exactly what

most would consider a favourable investment environment.

- And perhaps a lesson for the moment: despite all that the world has thrown at investors during the past decade - and it has been a lot - SA equities have delivered excellent returns, well in excess of inflation over the period.

Illustration 7: The North Pool, where one Tower stood



Remarkable times, remarkable (strange?) events

Seasoned market watchers will know that often during “remarkable times” – how else would one describe the prevailing investment environment and economic climate – strange things happen. They could be political events, or economic ones; or perhaps securities (shares) or markets that just display unusual behaviour. Space precludes a comprehensive list of all the strange happenings in the markets, but here are a few that caught our attention, in no particular order.

- *Russian roulette*: Perhaps one of the most farcical events during the month was the game being played between Russian “leaders” Vladimir Putin and Dmitry Medvedev. In a game reminiscent of a kindergarten sandpit, they announced a plan whereby they had agreed to “swap positions”. So much for democracy and their respect for the citizens of Russia! Accountability doesn’t even come into it! Their shenanigans open the way for Putin to rule Russia for a total period of 20 years. Investors were quick to vote with their feet: the rouble fell 10.5% in September and the equity market declined 21.2%.
- *Rogue traders – part 3*: One of the big stories during September was the \$2bn loss incurred by a 31-year old UBS trader, *Kweku Adoboli*. One of the last messages on his Facebook page read as follows: “Need a miracle”. Never a truer word spoken!
- *Swiss National Bank (SNB) intervention*: on 6 September the SNB intervened in global foreign exchange markets to stem the surge in the franc, which



had risen 44.5% since February 2009, just before the market trough in March of that year. The strength in the Swiss franc reflected the charge into perceived “safe havens” in recent months, as investors lost confidence in policymakers’ ability to fix the prevailing economic problems. It had intervened before but had failed to stop the rise in the franc. Its action in September was little short of what military strategists would call a “total onslaught”. The SNB said that it was aiming for a “substantial and sustainable weakening of the franc”, that it would pursue its move with “the utmost determination” and that it was prepared to buy foreign currency in “unlimited quantities”. These are extraordinary measures taken out of sheer desperation. The strong franc has had a major effect on Swiss industry, which is heavily geared towards exports. It “loosely” pegged the Swiss franc to SFr1.20 to the euro. The last time this type of central bank activity took place, it was by the Bank of England, and it cost them £1bn, and made George Soros an investment legend. Surprisingly, the market seems to have honoured the SNB’s currency manipulation – one wonders how long it will last.

- *All that glitters*: one of the biggest casualties of the SNB’s move was gold. Having touched a record high of \$1 920, gold tumbled after the SNB announcement, falling to an intra-day low of \$1 535 a few days later. That’s a massive (20.1%) decline – so much for being a safe-haven! It cast a question mark over those who were predicting with gay abandon that gold would march ever higher to above \$2 000 an ounce. At one stage during the month the gold Exchange Traded Fund (ETF) (GLD) held nearly \$65bn of gold, making it the world’s most highly valued ETF, higher even than the ETF that tracks the S&P500 (SPDR). More gold is held by private investors than is held by all central banks combined. As Mark Williams, author of *Uncontrolled Risk: the lessons of Lehman Brothers*, said, “If gold is falling in a weak economy and investors are willing to own US dollars again, imagine how it will perform when the global economy eventually moves from chaos to prosperity, and more traditional investments – those that produce products, dividends and jobs – come back in fashion”.
- *Record after record*: we could fill a whole page of records that are being set on a daily basis by financial markets. But we would like to record here that in the market mayhem during September, the US 10-year bond yield declined to a record low of 1.72% - its lowest level in 60 years. Similarly, the German 10-year *bund* dropped to a record low of 1.69%. Compare that to the record 1-year yield on Greek bonds of 82.1%. I saw much higher levels but also understand that for all intents and purposes there is no longer a market in short-term Greek bonds.

Illustration 8: Vasantha Velamuri mourns the loss of her husband, his name inscribed in the memorial wall



The end of an era

There are many times when I feel like noting the passing of influential people or those who have influenced many lives in one way or another. *Intermezzo* has in any event, become something of a scrapbook over the years, being a useful document to revisit to obtain a perspective of the prevailing times or to contextualize historic events. But I generally refrain, fearing that not all would share the sense of history. But there are some who we cannot but list, for their influence on contemporary society was so large that we have to document their passing.

And so it is that we record here the sad passing of **Steve Jobs** on 5 October 2011 after a long battle with cancer. Admired by many, loathed by others, his influence will surely go down as one of the largest in the decades surrounding the new millennium. Jobs co-founded Apple Computer in 1976 with his friend Steve Wozniak and founded Pixar, the computer animation company later sold to Walt Disney. In a letter to investors at the time of his resignation as Apple chief executive (due to failing health) Jobs said: “I have always said if there ever came a day when I could no longer meet my duties and expectations as Apple’s CEO, I would be the first to let you know. Unfortunately, that day has come.” Bill Gates had the following to say: “The world rarely sees someone who has had the profound impact Steve has had, the effects of which will be felt for many generations to come. For those of us lucky enough to get to work with him, it’s been an insanely great honour. I will miss Steve immensely.” I suspect many will echo that sentiment.



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Illustration 9: Robert Peraza pauses to remember his son, who died in the tragedy, his name inscribed in the wall



File 13: Information almost worth remembering

Climb every mountain

Many of our readers have been to and thoroughly enjoyed a Swiss Alpine experience (I ask the Swiss readers to humour me for a moment please ☺). If you are anything like me, mountain experiences are at times deeply spiritual ones, which recharge the batteries like no other and seem to place so much, particularly the crazy, incessantly noisy markets, into perspective. If you in any way related to that, you will find the following snippet interesting - I have more detail for those who would like it – just ask via email.

The Matterhorn near Zermatt was successfully scaled for the first time by a party led by Englishman Edward Whymper in 1865. It took them three days from Zermatt, although the success was tempered by the death of four members of the party on the descent. In August this year, 22-year-old Andreas Steindl sprinted up the Matterhorn in just 2 hours 57 minutes in an astonishing display of athleticism and prowess. From where he started (from Zollhaus on the outskirts of Zermatt) the feat incorporates an ascent 2 915m; the summit of Matterhorn itself is 4 478m above sea level. The Eigerwand, the treacherous north face of the Eiger, was first scaled by Anderl Heckmair in 1938. It took his party three days to get to the summit. In April this year Dani Arnold climbed the north face of the Eiger in just 2 hours 28 minutes. Many of these *super-humans* (my term) also participate in what is called “skyrunning” which involves trial and mountain running across some of the major peaks in the world. By way of example, Catalonian skier and ultra-runner Kilian Jornet, holds the record for the fastest ascent of Kilimanjaro. He reached the summit of Africa’s highest peak in 5 hours 22 minutes. Jornet makes no secret of his admiration for the Italian mountain runner Bruno Brunod. In 1995, Brunod ran from Cervinia, on the Italian side of the Matterhorn, to the summit and back in just 3hrs 14mins, a record that still stands.

Illustration 10: The Matterhorn. View from the Gornergrat



Record price of SA artwork

In the midst of the financial crisis and declining asset prices comes the news that a record amount (for South Africa, at least) of R21.2m (\$2.6m) was paid for an Irma Stern painting, *Two Arabs*, at an auction in Cape Town last month. Two other Irma Stern works sold at the same auction for prices in excess of R2m. More than R50m of art was sold at the Strauss & Co September auction, setting a number of records for certain artists in the process. In October last year a record amount of \$3.8m was paid of Irma Stern’s *Bahora Girl* at a Bonham’s auction in London.

Illustration 11: Irma Stern. *Two Arabs*. 1939. Oil on canvas. 58.5 x 83.5cm.

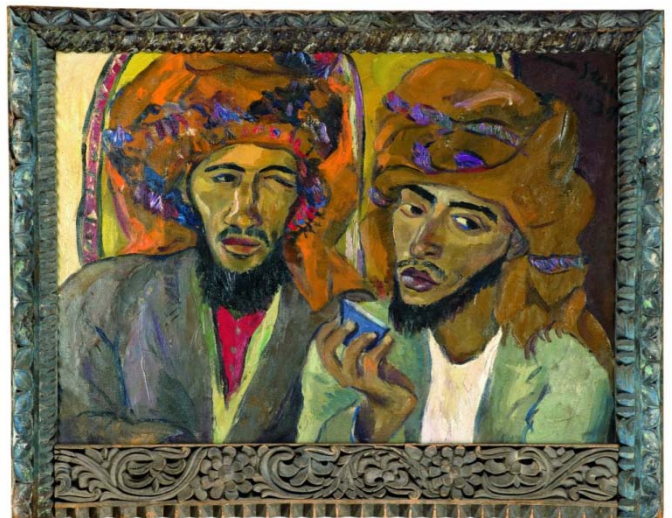


Illustration 12: Family gather around the North Pool



Table 4: MSCI returns to 30 September 2011 (%)

	Sep'11	3Q'11	YTD
Pakistan	5.8	-7.1	-7.3
Turkey	3.5	-15.6	-25.0
Japan	-2.5	-7.3	-12.7
India	-6.6	-20.3	-27.6
MSCI DM	-6.7	-15.1	-11.7
Morocco	-8.4	-9.7	-9.8
New Zealand	-9.2	-8.8	3.7
Philippines	-9.2	-7.6	-9.4
Egypt	-9.5	-20.7	-41.4
Indonesia	-10.0	-11.5	-1.3
Colombia	-10.3	-13.0	-8.5
Malaysia	-10.3	-17.8	-12.4
Taiwan	-10.6	-20.4	-23.0
EM Asia	-12.9	-21.9	-21.6
Korea	-12.9	-23.3	-17.7
Israel	-13.4	-26.1	-32.6
AP ex-Japan	-13.8	-21.5	-21.1
Singapore	-13.9	-19.5	-19.7
MSCI EM	-14.8	-23.2	-23.5
Australia	-15.1	-21.4	-20.0
Mexico	-15.5	-20.0	-20.6
South Africa	-15.8	-17.7	-22.0
Czech Rep.	-16.4	-23.3	-9.5
Hong Kong	-16.8	-20.6	-22.8
China	-17.3	-25.7	-26.3
EEMEA	-17.3	-24.8	-24.4
Peru	-17.4	-5.2	-31.8
LatAm	-17.5	-25.1	-27.6
Thailand	-17.7	-15.5	-15.3
Brazil	-18.5	-27.7	-30.2
Chile	-18.6	-26.4	-27.6
Poland	-21.7	-34.8	-28.3
Russia	-21.9	-31.0	-25.5
Hungary	-27.8	-44.4	-33.1

Source: Merrill Lynch

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