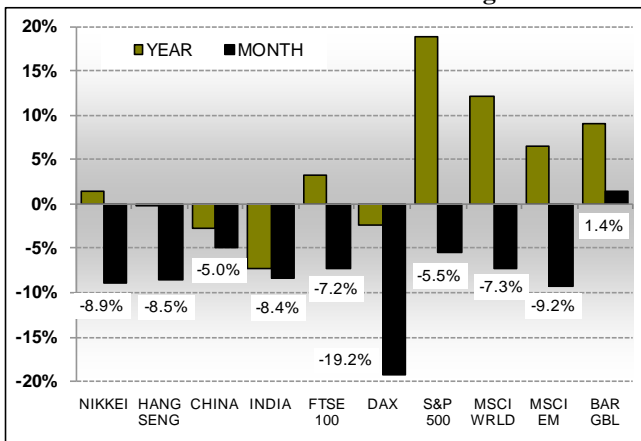




August in perspective – global markets

August proved to be a tumultuous month in global equity markets, with material declines in markets notwithstanding a rally towards the end of the months. The double blow of a downgrade to the US credit rating and infantile bickering amongst US politicians ahead of their government running out of money, sent shock waves through the investment environment. Panic buy led to the price of gold reaching a record price of \$1 913 and sent bond market prices to record levels and yields to fresh lows; the US 10-year government bond touched 1.98% and the 2-year bond traded as low as 0.17%. Further evidence of a material slowdown in the rate of economic activity across the world confirmed that the outlook for the future looked uncertain, to say the least.

Chart 1: Global market returns to 31 August 2011



With regard to equity markets, at its worst levels during the month the US equity market declined 9.3%, the UK 13.9% and Germany 23.5%. When all was said and done the MSCI world index had declined 7.3% and the Emerging market index 9.2% during August. Their respective year-to-date losses are 5.4% and 10.3%. Russia declined 13.4%, India 8.4%, Indonesia 7.0%, China 5.0% and Brazil 4.0%. The SA equity market declined 4.4% in dollar terms. Developed markets were not spared: the Japanese market declined 8.9%, Hong Kong 8.5%, the UK 7.2%, the US 5.5% and the German market a whopping 19.2%. The market declines were accompanied by extraordinary levels of volatility, similar to those seen during the worst of the 2007/9 Great Financial Crisis.

The declines and volatility were not confined to equity markets; currencies also registered wild swings, particularly as the central banks of Japan and Switzerland tried in vain to stem the strength in their respective currencies. Modest monthly returns in the currency markets belie the intraday volatility, which saw, for example, the Swiss franc move in a range of more than 5% on a couple days. The euro rose 0.2% against the dollar, which in turn rose 2.3% against the

Swiss franc, albeit off a very low base. The rand declined 4.1% against the dollar, after having been down more than 10.0% early in August – see what I mean about volatility? Global bond markets were firm, fuelled by the paradoxical flight to the “safety” of US government bonds, which in turn pulled down the yields (interest rates) of bonds across the world. The Barcap aggregate global bond index rose 1.4%. Commodity prices were weaker, as the realization of slowing global growth set in. Gold rose 11.5% and platinum 3.7%, but palladium fell 5.0% and oil 1.6%. Base metals were weak across the board, with the exception of iron ore, which rose between 0.9% and 2.5%.

What’s on our radar screen?

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

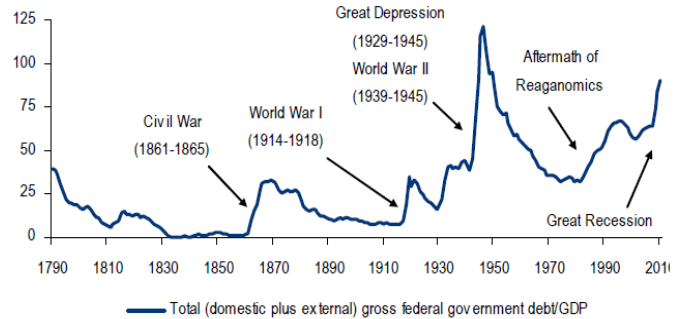
- *The South African economy:* Second quarter (Q2) economic growth in SA slowed to 1.3% from 4.5% in Q1. The latter was revised down from the initial estimate of 4.8%. The main detractors were the mining (-4.2% Q2 growth) and manufacturing (-7.0% in Q2 after a very strong 14.5% in Q1) sectors, which together took 1.3% away from growth. On the other hand the government services (5.7% Q2 growth), finance and business services (2.9%) and wholesale and retail trade (4.1%) added a combined 1.9%.
- *The Chinese economy:* the rate of inflation in China rose to 6.5% in July from 6.4% in June. In addition and somewhat against expectations, the central bank (the People’s Bank of China or PBoC) redefined their calculation of bank deposits, the result of which was to raise the amount of capital banks are required to hold at the PBoC against their assets, the so-called reserve ratio requirement or RRR. The latter is already at 21.5% for large banks and 19.5% for smaller banks. The new definition of the RRR will effectively raise this ratio in the coming months by another 1.5%. i.e. monetary policy will be tightened further.
- *The European economy:* there has been plenty of evidence that the European economy has been slowing. Across the 17-member Eurozone community there are now 15.7m unemployed people, a 10.0% unemployment rate. The range of unemployment varies from country to country; Germany’s unemployment rate is 6.1%, France 9.9% and Spain 21.2%. August inflation in the region was 2.1%, above the European Central Bank (ECB’s) target of “below but close to 2%”. In terms of economic growth, it probably doesn’t get worse than Greece, whose economy shrank 6.9% in Q2. That follows the 2.2% and 4.4% decline in 2009 and 2010 respectively. The only consolation is that the Q2 slide was less than the Q1 slide of 8.1% or the last quarter of 2010, when the Greek economy shrank 8.8%.



- *The US economy:* Growth in the US economy during the second quarter was revised down from the initial estimate of 1.3% to 1.0%. This follows the dramatic fall in first quarter growth to only 0.4% from 3.1% in the last quarter of 2010.
- *Emerging markets:* The **Indian** economy grew by 7.7% in the second quarter, down from a rate of 8.8% a year ago. Growth in the manufacturing sector slowed to 7.2% from 10.6% a year ago, while the slowdown in the construction was even more dramatic, falling to only 1.2% from 7.7% a year earlier. During August Indian Prime Minister Manmohan Singh's economic advisory panel revised down its 2011 official growth forecast from 9.0% to 8.2%. Growth in **Brazil** slowed to 0.8% in the second quarter, from 1.2% in the first quarter. The second quarter growth was boosted by government spending, which rose 1.2%, higher than the 1.0% rise in consumer spending. The annual rate of growth to June was 3.1%. Despite inflation running at 6.9% the Brazilian central bank surprised the market by cutting interest rates by 0.5% to 12.0%. Previously the bank had raised rates by 1.75% over the past five consecutive meetings. In its accompanying statement the bank made it very clear that the rate cut was a result of the "deteriorating international scenario" and noted the "large and widespread reductions to the growth forecasts in the main economic regions".

and unified interest rates. But the chart shows in brutal graphic form what has happened since mid-2008: as the ripples (tidal waves?) of the Great Financial Crisis in 2008/9 moved across the world and the true state of indebtedness became apparent, particularly in the countries which had lived beyond their means, investors voted with their feet and pushed yields on the respective government bonds to pre-unification levels – and worse. You can understand now why so many are questioning the sustainability of the euro as a single currency.

Chart 3: An unprecedented level of US government debt



Source: Merrill Lynch

I find it slightly amusing, more annoying in fact, to see how many Europeans blame the US for the current dysfunctional markets, while on the other side of the Atlantic Americans feel that Europe is single-handedly to blame for the current mess. Of course, the reality lies somewhere in between, but lest our American friends forget how much debt the country owes, I present Chart 3, which shows the total US government debt as a percentage of their economy (GDP). Apart from the years immediately after the end of World War II, it has never been higher – and yes, this chart goes back to 1790.

August in perspective – local investment markets

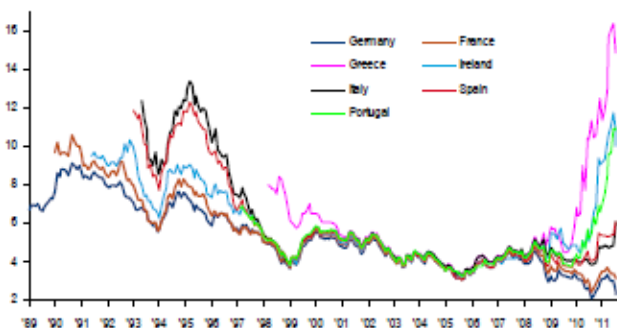
SA investment markets mirrored the movements of international markets although the degree of movement was, thankfully, not as bad. The equity market's maximum decline was 6.3% although remarkably the latter recovered to post a loss of only 0.3%. One could be forgiven for thinking that August was similar to other months and simply posted a marginal decline but I must warn and assure you that nothing could be further from the truth! The equity market was pulled lower by the basic materials index, which declined 1.8%. Industrials declined 0.2% but the financial sector rose 1.3%.

The mid and small cap indices declined 0.4% and 1.9% respectively, much less than the 7.3% and 7.8% respective declines of US mid and small caps. The gold index rose 12.2% but remember it declined 9.4% in June. The gold index's return for the year-to-date is only 0.4% and its annual (12-month) return to end-August stands at 8.1%.

Charts of the month

Many of you will recall the introduction of the euro on 1 January 1999. Perhaps fewer will recall the divergence of bond yields (interest rates) across the present-day Eurozone as markets started pricing in the single currency.

Chart 2: The Eurozone – past and present, but future?



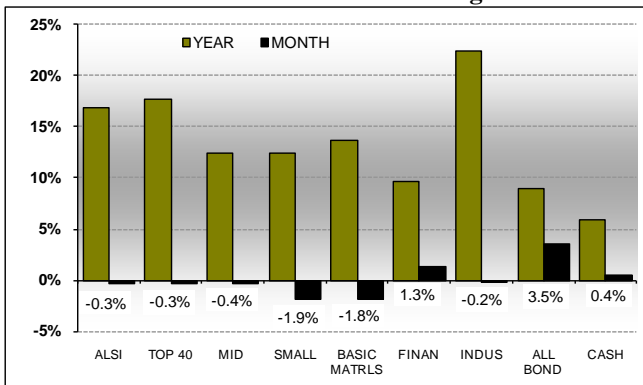
Source: Merrill Lynch

This is shown clearly in Chart 2, which depicts the respective 10-year government bond yields for selected European countries. The power of the euro as a single currency allowed many countries to dramatically reduce their respective cost of borrowing; some will argue it also allowed them to live way beyond their means. For nearly a decade EU members lived in a harmonious world of low



The month's best sector returns were those of gold, up 12.2%, coal 7.1% and retailers 6.5% while the decliners were led by construction down 8.4%, chemicals 7.6% and tech hardware 7.6%. The All bond index rose 3.4%, after having being as high as 4.7% at one stage during the month, and we have already mentioned the 4.1% decline in the rand dollar exchange rate.

Chart 4: Local market returns to 31 August 2011



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	Aug	-1.2%	-6.7%	12.0%
<i>Maestro equity benchmark *</i>	Aug	0.2%	1.1%	18.7%
<i>JSE All Share Index</i>	Aug	-0.3%	-1.8%	16.9%
Retirement Funds				
Maestro Growth Fund	Aug	-0.2%	-4.5%	8.4%
<i>Fund Benchmark</i>	Aug	0.3%	1.3%	12.9%
Maestro Balanced Fund	Aug	0.1%	-2.9%	7.1%
<i>Fund Benchmark</i>	Aug	0.4%	1.9%	11.8%
Maestro Cautious Fund	Aug	0.6%	0.8%	8.5%
<i>Fund Benchmark</i>	Aug	1.1%	3.2%	10.2%
Central Park Global				
Balanced Fund (\$)	Jul	0.3%	0.9%	11.8%
<i>Benchmark**</i>	Jul	-0.2%	2.6%	10.1%
<i>Sector average ***</i>	Jul	-1.3%	3.1%	11.4%

* 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 (\$)

Maestro publishes the returns of its equity portfolios every quarter. These are the returns achieved on the fully discretionary equity portfolios under our management; the returns are shown after fees have been deducted. As our clients would know (we have discussed this with them in separate correspondence) we had a disappointing March quarter, due largely to certain of our large holdings declining sharply in January after having posted sizeable gains during the December quarter last year (our December quarterly returns were above average). We were also not adequately positioned for the sharp (7.9%) decline in the rand in January, as we held – and still hold – the view that the rand would remain relatively firm. Our returns to the end of March were tabled in the [June edition of Intermezzo](#). I am happy to report that our relative returns have improved during the June quarter although to be honest, I think investors and investment managers alike are a bit punch-drunk from all the volatility in recent months. The conditions in which to manage money have been very tough and have not paid any respect to style, skill or distinctive competencies. Maestro's returns are shown in the Table 2 and the same returns are reflected in Chart 5.

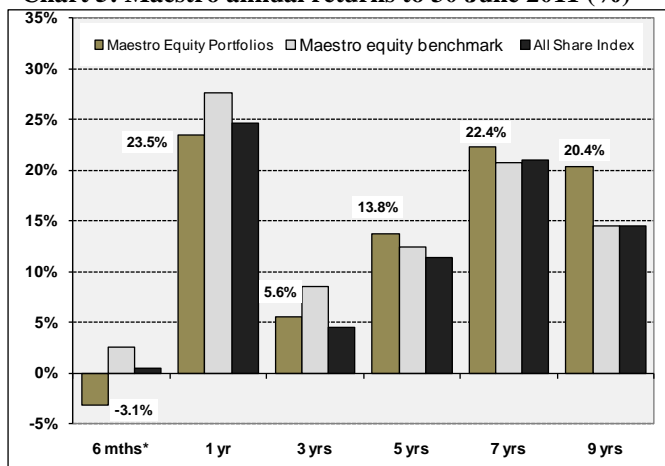
Table 2: Maestro annual returns to 30 June 2011 (%)

SA equity returns	6m *	1 yr	3 yrs	5 yrs	7 yrs	9 yrs
<i>Maestro long-term equity portfolios</i>	-3.1	23.5	5.6	13.8	22.4	20.4
<i>Maestro equity benchmark</i>	2.6	27.6	8.5	12.4	20.8	14.5
<i>JSE All Share Index</i>	0.5	24.7	4.5	11.5	21.0	14.5

* 6-month returns are un-annualized

You will recall that the Maestro equity benchmark, one of the measures we compare ourselves against (the other being the All share index) is a combination of the Top40 and Findi30 indices, the effect of which is to reduce the heavy weighting in basic materials (resources) which is implicit in the All share index. We think this is a more appropriate benchmark against which to measure long-term equity returns in SA. However, with the basic material sector having performed quite poorly in recent times, you can see from a casual comparison between the two in Table 2 that the Maestro equity benchmark is proving to be a very demanding benchmark. That is worth remembering when comparing our returns against it.

We will at some stage again show the comparative risk characteristics of our returns against those of our benchmark and the All share index, but we are confident that Maestro's equity returns are less volatile than those of the other two benchmarks, which is also an important consideration but which is not evident from the table or returns, above.

**Chart 5: Maestro annual returns to 30 June 2011 (%)**

* 6-month returns are un-annualized

A few quotes to chew on

“The farcical lack of cohesiveness and leadership at the political level in the West has made it difficult for investors to look past the end of their nose. Uncertainty is prevalent and markets do not like it... Whilst India and China will not be immune from a slowdown, in the main they have the advantage of strong balance sheets, little or no direct exposure to the PIIGS (Portugal, Ireland, Italy, Greece and Spain) markets, flexibility in labour markets and strong underlying demand. Perhaps most importantly (and in stark contrast to the industrialized nations) both governments have substantial firepower at their disposal and are now at, or nearing, the end of the tightening process.” *Jonathan Schiessl, Lead Fund Manager of the Ashburton Chindia Equity Fund.*

The *Dallas Federal Reserve Governor Richard Fisher* was one of the three dissenters who disagreed with the Fed’s policy to retain interest at their low rates, at least until the first half of 2013. A few days later he spoke publicly on the reasons behind his dissent. “I believe what is restraining our economy is not monetary policy but fiscal misfeasance in Washington. Businesses simply cannot budget or manage for the uncertainty of fiscal and regulatory policy.” Chiding lawmakers just weeks after disagreements over deficit-cutting in Congress brought the United States to the brink of a first-ever debt default, he said that it is Congress, not the Fed, that must act. “Monetary policy cannot substitute for what you must get on with doing,” he told them. “Get on with your job.”

[In the same speech](#) *Richard Fisher* went on to say: “Those with the capacity to hire American workers—small businesses as well as large, publicly traded or private—are immobilized. Not because they lack entrepreneurial zeal or do not wish to grow; not because they can’t access cheap and available credit. Rather, they simply cannot budget or

manage for the uncertainty of fiscal and regulatory policy. In an environment where they are already uncertain of potential growth in demand for their goods and services and have yet to see a significant pickup in top-line revenue, there is palpable angst surrounding the cost of doing business.”

Midway through August, *Merrill Lynch North American economist Ethan Harris* had the following to say. “The last two weeks have been a rollercoaster ride in the markets. Already concerned about signs of economic weakness, investors have reacted dramatically to the dysfunction in Brussels, Frankfurt and Washington. European policy makers have responded to their crisis with a series of indecisive measures, including a counter-intuitive tightening of the monetary policy by the European Central Bank ... Closer to home (the US), fiscal authorities have bombarded the markets with a quadrasonic message of hopelessness: (1) the US has a huge fiscal problem, (2) they are too dysfunctional to deal with it, (3) threatening to default on the debt is an acceptable form of negotiation, and (4) we will continue to tighten policy regardless of how the economy is doing. Unfortunately, this leaves the Fed in a familiar spot, cleaning up everyone else’s mess.”



Source: National Geographic

I enjoyed the following comments from *John Mauldin’s* weekly letter *Thoughts from the Front Line*. “To say that the government of Europe is dysfunctional is a no-brainer. The bright side is that it makes the US government look slightly better, and that’s not saying a lot. This past week Nicholas Sarkozy asked Angela Merkel out, so they could decide what to do about the euro crisis. What they said was, we need yet another Eurozone governing body overseeing fiscal debt and promises by governments not to run large deficits – like that has ever worked. And they unequivocally said “non” and “nein” to the idea of euro bonds, which everyone else says is vital if the euro is to survive. Oh, and we will harmonize our tax structures within five years. As if that



solves the crisis today. Note to Nick and Angela: the problem is not tax structures, it is debt that cannot be repaid.”

Much has been written about gold and there are many and various opinions flying around the markets on the metal. Maestro has its own view on gold and gold shares in particular, as many of you will know. We found an article by *Peter Tasker, a Tokyo-based analyst at Arcus Research*, very interesting. Here are some excerpts from the article: “The parable of the talents contains a timely warning for the gold market. In the biblical story, the master distributes his wealth between three servants. The first and the second put their capital to work in businesses and generate healthy profits. The third, scared of losses, buries his share in the ground. The master praises his two active managers for their performance, but consigns the proto-gold bug to ‘outer darkness’. In today’s world a lot of wealth is, in effect, being buried. All the gold mined is still in existence. At current prices it is worth about \$8,000bn. *This means the world is assigning around the same value to its store of this sterile, unusable asset as to the combined stock markets of Germany, China and Japan* (my italics). Gold’s recent dizzying ascent – swiftly followed by a sudden slide, as it fell \$160 per ounce (in two days) – has been ascribed to loss of faith in the banking system, paper currency and also in the political leadership of the industrialised world. Fear is certainly a factor ... Gold is thinly traded and its supply constrained, so if people in the US did indeed pile into the market, the price could go much higher. But is gold a safe asset regardless of price? History suggests not. The last bull market in gold began in 1971 with US president Richard Nixon’s closing of the ‘gold window’ and ended in a euphoric blow-out 10 years later. Buying gold in its last parabolic surge proved to be a disastrous decision as the yellow metal then entered a 20-year bear market in which its real price fell 80 per cent. It is now 10 years since Gordon Brown’s sale of Bank of England gold reserves marked the bottom of the bear market. Since then, the gold price has risen six fold. This is tamer than the 15-fold rise of the 1970s, but still equivalent to such notorious examples of stock market excess as the Nikkei index in the 1980s, Nasdaq in the 1990s and the Shanghai Composite in 2004-08 ... Furthermore, the 1970s bull market in gold occurred at a time of raging inflation across the industrialised world and during a devastating bear market in government bonds. The gold mania was just one aspect of a broader flight from financial to hard assets. This time, government bonds are in a bull market with yields at multi-decade lows, and the CRB commodities index is at 2006 levels. So, why gold now? Why not protect yourself through stocks instead? After all, shares issued by a private sector company are a kind of currency and their supply cannot be increased without stockholders’ say-so. It can be argued that US stocks are not yet cheap, given the enormous gains clocked up in the 1980s

and 1990s. True, but even so stocks are cheaper than gold. Since 1971, the S&P 500 index has risen 100 per cent in real terms, whereas the real gold price is 700 per cent higher. Stock markets that have suffered serious corrections look better. Japan’s Topix index has only once before been cheaper than now relative to gold – in the 1980 blow-off phase of the last gold mania. US house prices may be in a similar position. The Ofheo index of house prices is within 10 per cent of its 1980 lows relative to gold. A house can be lived in. Corporate stocks generate dividends. Gold generates nothing and therefore cannot be valued in its own right, only as a measure of revulsion towards other assets. Rather than being a store of value, it is doomed to obey bubble dynamics. When bubbles burst, they usually return to pre-bubble valuations. In 2001, gold was no higher in real terms than in 1972. A repeat would reduce gold bulls, like the third servant, to ‘weeping and gnashing of teeth’”.



Source: National Geographic

The drama and remarkable experiences in equity markets during August was summed up well by *Sarasin’s Chief Investment Officer Guy Monson*, who wrote as follows; “The continued turbulence this week in global financial markets has been extraordinary, with the S&P500 moving by more than four percent in either direction for five of the last six sessions; intraday volatility has of course been even higher. Such excessive volatility is the result of extreme liquidity washing around in the system, purposefully boosted by the “good intentions” of the major central banks. Volumes in markets are equally extreme, with average US trading over the week the highest since September 2008, and the ratio of “declining volume to advancing volume probably the highest ever recorded.”

Financial Times commentator *John Plender* had the following to say after the downgrade of the US: “Recent global economic data points to deteriorating growth prospects, while recent revisions to US statistics suggest that the recovery of 2008 has been even more anaemic than



thought, despite huge policy intervention. That is a nasty reminder of Japan's dismal fate over the past two decades. The weaker growth prospect in turn means that the huge burdens of the debt in the US and much of Europe will be harder to service. While the S&P downgrade is neither here nor there given the rating agencies' flawed record, the markets have been profoundly shocked that so many US legislators appeared not to care, in the debt ceiling debate, whether the US defaulted... What the markets have grasped is that leading policymakers' strategies for handling these huge economic and financial challenges still amount to no more than muddling through. The recent panic was thus understandable. Double dip or no, the hurdles for the global economy in 2012 look like being tougher still".

"Policy makers have spent recent months sending four very negative messages: (1) the US has a serious debt problem, (2) the policy process is broken so that solutions are elusive, (3) threatening to shut down the government or to default on the debt is a good negotiating tactic and (4) the US has no fiscal-easing safety net if the economy slides towards recession. Like many Americans, we view the events in Washington with increasing frustration and dismay." *Ethan Harris, Merrill Lynch North American economist.*



Source: National Geographic

State of the Nation – an update

I am sure that many of you will join me in congratulating Luke on passing his CFA Level III exam. The Chartered Financial Analyst certification, which consists of three levels, loosely equivalent to a three year required to study a degree, is awarded by [the CFA Institute](#) and is highly regarded around the world in financial analytical circles.

While on the subject of "internal affairs" Spring Day passed as usual in Cape Town – it rained for most of the day, similar to the previous five or six years! However, it is marked with a sense of gratitude and occasion in the Maestro office because it is also our birthday. Maestro has just put its 11th year behind it. Well I recall as I started the

firm back in 2000 (also in a midst of a crisis – what's new?), how a group of potential clients said – rather tongue in cheek I hoped – that "all" they required was an annual 10% return – in dollar terms! One client, a great Warren Buffet fan, added another requirement (both tongues in the cheek by now) that our returns should also beat the performance of Buffet's company, Berkshire Hathaway. You can imagine how I felt – at that time markets were collapsing in the aftermath of the 2000 tech meltdown and the infamous "Y2K". The rand, for the record, was at R7.24 per dollar – would you have guessed that? I pointed out to the group of clients that I thought their requests were very unrealistic, but promised to do my best to match them. Inwardly, I thought it would be impossible but the clients were gracious enough to hand their assets into Maestro's care and I am glad to report that we still manage them today. The outcome of this story is that we have been tracking the rands and dollar returns ever since and comparing them to those of Berkshire Hathaway. For space sake I will leave discussing the results until next month's *Intermezzo*, but suffice is to say that you will be astonished at the outcome. Watch this space...

File 13: Information almost worth remembering

Chuckle first, and then be shocked

The following comment is so serious I feel awkward placing it in the "File 13" section. Did you know that over the next 12 – 18 months Japan will become the first society where sales of adult diapers (nappies) exceed baby diapers? At first this might seem rather amusing – it is certainly an unusual indicator to monitor – but once the lighter side has faded the seriousness of the situation lingers. It points to a growing demographic crisis that most developed economies face, one which will have dramatic consequences for the global economy in every aspect. We will live through that period i.e. it is not that far away, and markets will have to negotiate the debt and fiscal implications of this looming catastrophe.

Up, up and away...? All that glitters is not gold

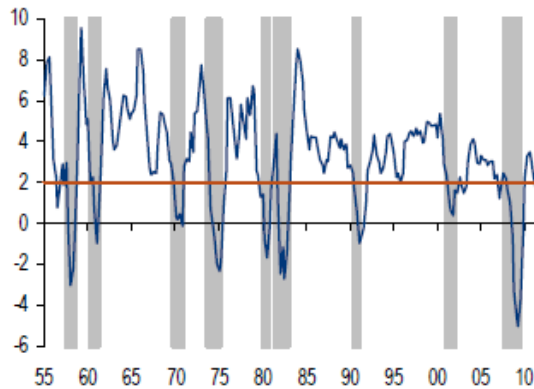
On August 23, the SPDR Gold Shares, an exchange traded fund (ETF) that invests directly in gold, rose above the SPDR S&P 500 ETF i.e. the ETF that tracks in the US large cap index (the S&P500 index) and which is obviously a very large and popular ETF. The value of its assets rose to \$76.7bn i.e. the exchange traded Fund held no less than \$76.7bn of gold. This comes on the back of the recent record price of gold. Exactly what would happen if the sudden charge into gold were to reverse, remains to be seen. But it does confirm firstly the huge stampede by, inter alia, retail investors, into gold as they seek a "safe haven" and secondly, the extent to which ETFs have "come of age" and are now recognized as a "mainstream" investment vehicle, whose benefits include, at least in respect of the Gold Shares ETF, relatively low costs of investing and the removal of storage costs for gold and the security risks of having to store the coins or bars.



How bad are things in the US really?

It is hard to accurately gauge the answer to this question, despite all the data that are released daily. So we often look to anecdotal evidence for clues. What we find, so far, is not encouraging. Consider the following: we hear from Wal-Mart that shoppers come into their stores late at night on the last day of the month and wait until midnight, when their new allotment of food stamps is activated. There are already 40 million Americans on food stamps i.e. one in seven Americans. One in six desiring a full-time job is unable to get one. Youth unemployment is around 20% although in some locations and among some socio-demographic groups, it is twice that. Whatever happened to the American Dream?

Chart 6: A history of annual US economic growth (%)



Source: Merrill Lynch

Chart 6 shows a long-term chart of annual US economic growth. Three aspects immediately came to mind when I saw the chart; firstly, how much more volatile the economic cycle was between 1955 and 1983, and how the amplitude of the cycle has declined since then. Secondly, how deep the 2007/9 crisis was, relative to the previous fifty years. And finally and perhaps less obvious, the stable and strong period of economic growth between 1985 and 2006, which experienced only two brief and shallow recessions around 1990 and (September 11-induced) 2002. But let's remind ourselves that it was this period of enormous growth that sowed the seeds for the eventual crisis that began in 2007 and which the world is still struggling to come to terms with. Looking back it is hard to believe that there were such long periods of very low interest rates, which played such a causal role in the ballooning sub-prime bubble. Just think what now lies ahead of the US (and to a lesser extent the world economy, too) – much of the policy tools that were available to combat recessions, such as fiscal stimulus and low interest rates, are simply no longer available and what's more, the US is faced with a debt-load that dwarfs any prior level of indebtedness in their entire history (refer again to Chart 3).

AAA-rated countries – an endangered species

With all the focus on the US credit downgrade, it is worth placing on record the remaining nations in the world who are still rated as “AAA” by all three major rating agencies. They are Australia, Austria, Canada, Denmark, Finland, France, Germany, Isle of Man (I kid you not), Luxembourg, Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, and United Kingdom.

And you thought times were tough?

Amidst all the news of hard times, belt tightening and plunging equity markets, comes the news that a UK “home” has been sold for a record price. The 300-year old Park Place, on the banks of the river Thames near Henley in Oxfordshire, was sold to an unnamed Russian buyer, for a record £140m (\$227m or R1.5bn). The house has 9 144 square meters (30 000 square feet) of living space and is set in 570 acres. It was bought in 2007 by a property developer Mike Spink for £42m.

Illustration 1: Park Place in Oxfordshire



Source: The Telegraph

What's in a headline?

I have always enjoyed sharp wit and clever headlines – doomed as our profession is to reading reams of financial literature every day. In my humble opinion *The Economist* magazine trumps all others with their intelligent, witty headlines. Few can pack so much into so few words – and do it in a manner that brings a smile to the face. I was amazed then that the media didn't make more of Warren Buffet's \$5bn investment into Bank of America (shortened to BofA by the media circus and referred to as “Boffa” for short). Buffet invested \$5bn into the troubled bank – one of America's largest – by way of pref shares carrying a yield of 6.0%, rather juicy when compared to the US 10-year government bond yield of about 2.0%! As part of the deal, Buffet's company, Berkshire Hathaway will also receive about \$5bn warrants, which allow it to buy 700m common BofA shares at a price of \$7.14. But now, back to the headline. Forgive my humble efforts, but I just couldn't resist the obvious headline that this event triggered. It seems



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there were no takers, perhaps because it is simply too obvious; or perhaps the wit is so low, it is not worth stooping to? But, rather low wit than no wit, so here goes ... the headline must surely have read "Buffet's billions in Berkshire's BofA Bailout."

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

	Aug'11	YTD	QTD
Peru	5.9	-17.5	14.8
Morocco	3.2	-1.5	-1.4
Colombia	0.2	2.0	-3.0
South Africa	-1.5	-7.4	-2.3
Mexico	-4.4	-6.1	-5.4
Chile	-4.4	-11.1	-9.6
Philippines	-4.6	-0.1	1.8
Australia	-5.3	-5.8	-7.4
LatAm	-5.9	-12.2	0.5
Czech	-6.2	8.2	-8.3
Hong Kong	-6.4	-7.2	-4.5
Egypt	-6.5	-35.3	-12.4
MSCI DM	-7.3	-5.4	-3.1
Brazil	-7.3	-14.4	-11.3
Indonesia	-7.9	9.6	-1.7
Malaysia	-8.0	-2.3	-8.3
Thailand	-8.0	2.9	2.6
Japan	-8.2	-10.4	-4.9
EMEA	-8.5	-8.6	0.1
AP ex Japan	-8.9	-8.4	6.5
MSCI EM	-9.2	-10.3	-16.4
China	-9.4	-10.8	-10.1
Taiwan	-9.8	-13.9	-11.0
Singapore	-10.6	-6.7	-6.5
EM Asia	-10.6	-10.0	2.7
Pakistan	-11.0	-12.4	-12.2
Argentina	-11.9	-25.1	-15.0
India	-12.5	-22.5	-14.7
Israel	-12.7	-22.1	-14.6
Poland	-13.3	-8.5	-16.7
Korea	-13.4	-5.5	-12.0
Russia	-13.5	-4.6	-11.7
Turkey	-14.8	-27.5	-18.4
Hungary	-16.9	-7.4	-23.0

Source: Merrill Lynch

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