

**START PUTTING YOUR MONEY TO WORK IN EQUITIES**

Even though it's certain that market volatility will be high and there will be lots of bad news over the next year or so, if you have a long-term investment horizon it's a good idea to take advantage of the relatively strong long-term return prospects of equities and add them to your portfolio now, according to Peter Brooke, head of Macro Strategy Investments at Old Mutual Investment Group SA (OMIGSA).

"In 2008, many retail investors turned to money markets as a safe haven, selling out of equity-based funds in the process," he observes. "We in Macro Strategy Investments did the same for our funds, holding record levels of cash. Now, however, the interest rate cycle has turned. For those investors who don't need income right away, it's important to remember that money market returns will be substantially lower this year in line with the expected decline in interest rates, and after-tax returns from money market funds historically have not beaten inflation. So while still attractive for the short-term, money market investments are not likely to provide investors with good real returns over the long-term – we are projecting only 3.5% real returns per year through 2013."

Offshore cash is truly trash, Brooke believes, forecast to deliver 0% (yes, nil!) long-term real returns as interest rates fall sharply. In the US, three-month Treasury bill yields actually turned negative in December at -4 basis points (bps). "Offshore money market funds have been popular with South African investors, but no more," he observes. "If you're taking your money offshore, don't bother parking it in cash accounts, as it will earn nothing."

Bonds, meanwhile, offer even less attractive return prospects, says Brooke. Internationally, bond yields are at their lowest levels in 50 years – the weighted average return of global 10-year government bonds is an incredibly low 2.7% – while the benchmark 10-year US Treasury bond was yielding a pitifully low nominal 2.4%. "With the US market (very unrealistically) factoring in zero inflation for the next decade, there is no margin of safety for investors," he observes. "Real returns are likely to be only around 1.0% over the longer term."

In South Africa, bond yields have also reached their lowest levels in about 40 years, notes Brooke, following last year's fall of around one percentage point. "We wouldn't chase last year's winners – as this good gain makes further big rallies in 2009 unlikely. The market is already factoring in falling inflation and interest rate cuts of around 350bps over the cycle. Return prospects are also subdued by the likelihood of higher government bond supply this year. We are expecting a real return of only 2.5% per year from bonds over the next five years."

So what choice does that leave investors for 2009, asks Brooke? Property and equities. Consistent with his previous views, he sees listed property as a core long-term holding the Macro Strategy Investments portfolios, thanks to its expected real

return of about 7% per year. "Listed property will probably deliver the best yield of any local asset class over the next year," he says. "So despite short-term concerns about the rising vacancy cycle – which is clearly negative – you're likely to get a better yield and have a free option on capital growth into the future."

When it comes to equities, investors can certainly expect high volatility for the next year or so, both locally and offshore. "There are still many factors battling it out – we'll see dramatic market swings between bullish and bearish sentiment driven by very negative news flow, opposed by investors looking for value. From a macroeconomic viewpoint, we'll see battles between recession versus depression, stimulus versus deleveraging and ultimately deflation versus inflation."

Despite these terrible conditions for the near-term, investors should still start putting their money back into equities to take advantage of the good value on offer, advises Brooke. He expects long-term investors to be rewarded with real returns of around 8% per year in both international and local equities through 2013. Offshore equities are offering particularly good value right now because of their steep price declines in recent months – even more so than the local market, he says.

"Investors should capitalise on the good long-term value in the market now, and be prepared for some bad news flow and thrills and spills in the next 12 to 18 months. Low interest rates are here for a while, making returns from bonds and cash unattractive, and making property and equities the place to be. Within our solutions we will be looking for opportunities to add equities, so if you have an active manager this process will be taking place automatically," he concludes.

For more information, please go to [www.omigsa.com/msi](http://www.omigsa.com/msi).

## Dividend, Bond & Cash Yields

COUNTRY	INDEX	DIVIDEND YIELD (%)	BOND YIELD (%)	CASH YIELD (3 MONTH NCD) (%)
U.S.	S&P 500	3.2	2.4	0.1
EUROPE	DJ STOXX 50	6.6	3.0	2.3
JAPAN	NIKKEI 225	2.6	1.2	0.6
U.K.	FTSE 100	5.7	3.5	1.1
S.A.	JSE ALL SHARE	5.4	7.9	11.5

First time in 50 years that US Dividend yields > Bond yields

Source Data: Bloomberg, 10-year bond yield, NB Dividend yields are probably optimistic