



NOVEMBER 2010

MACRO COMMENTS ON SAVINGS SO FAR
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Macro comments on savings so far



- ▲ SA saves too little: huge risks as a country, as individuals, as businesses

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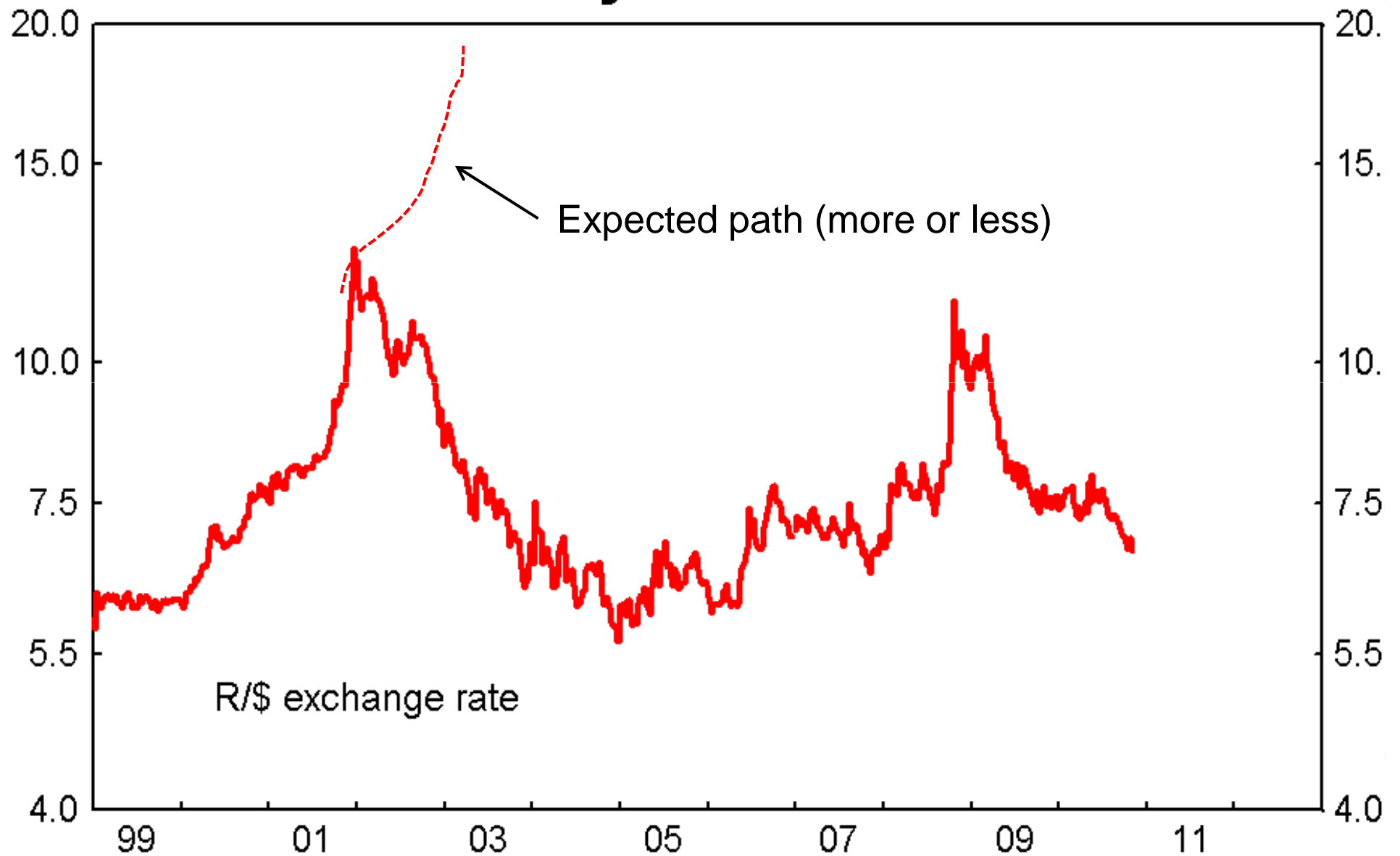
- ▲ Post-crisis global developments are not to be ignored:
 - Lower investment returns going forward
 - Global trend towards cutting back pension & other social benefits
 - Dependency ratios will rise (Interesting, France's youth most upset about raising retirement age as the old are keeping youth out of jobs)
 - SA will not escape these trends

Macro comments on savings so far



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 - Dependency ratios will rise (Interesting, France's youth most upset about raising retirement age as the old are keeping youth out of jobs)
 - *SA will not escape these trends*
- ▲ Individuals in SA run huge retirement risks
 - Poor investment decisions (some worse than gambling), retiring earlier
 - Many very under provided, but do not realise it (both DC and DB members)
 - Savings ratios must treble or quadruple for most people to provide sufficiently for retirement (for some it's already too late)
 - High real investment returns are needed more than ever - just as they seem more unlikely than ever
 - Growth assets are needed in retirement too!!

Some great investment decisions by South Africans...



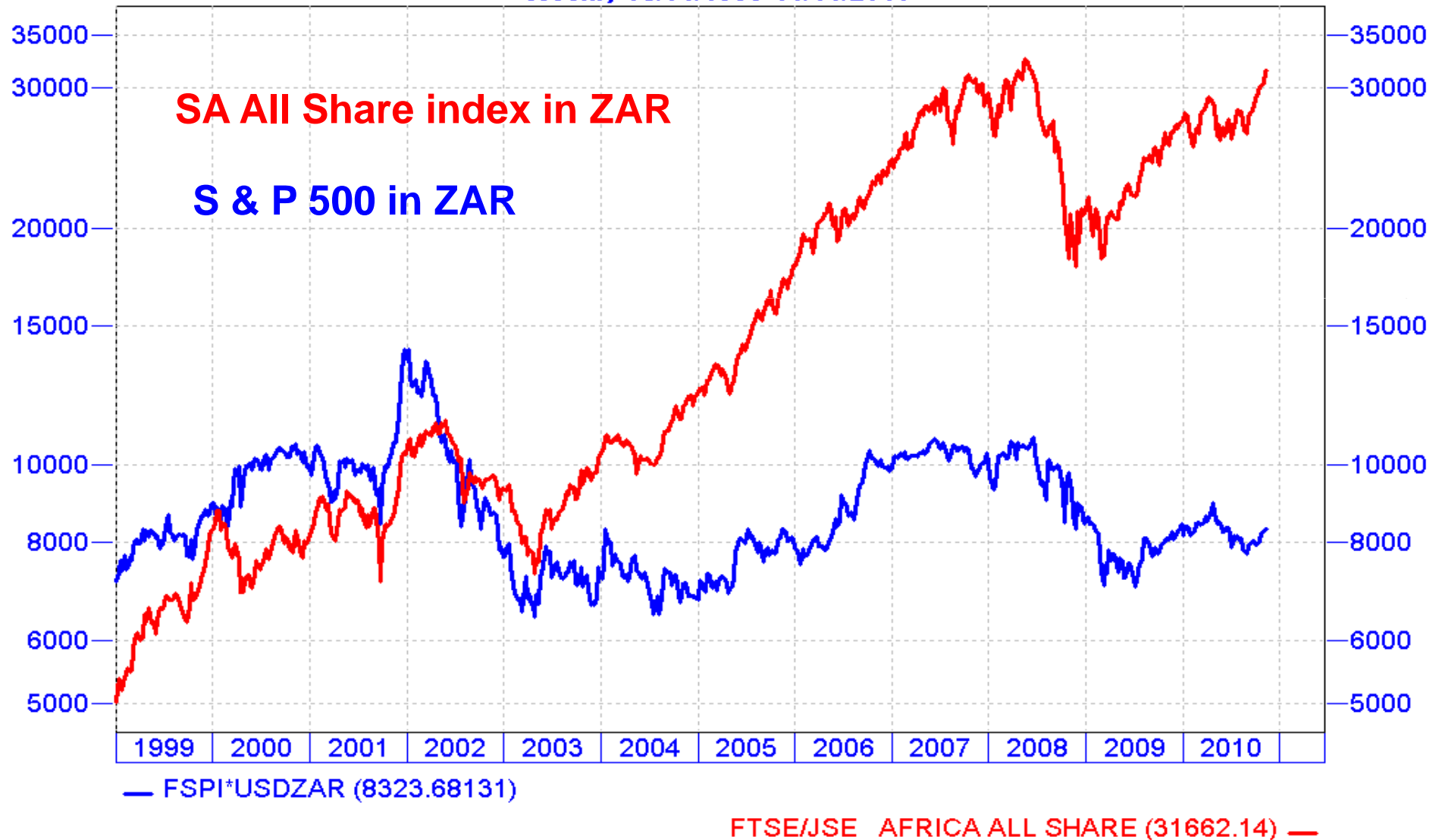
USA S & P 500 in Rand



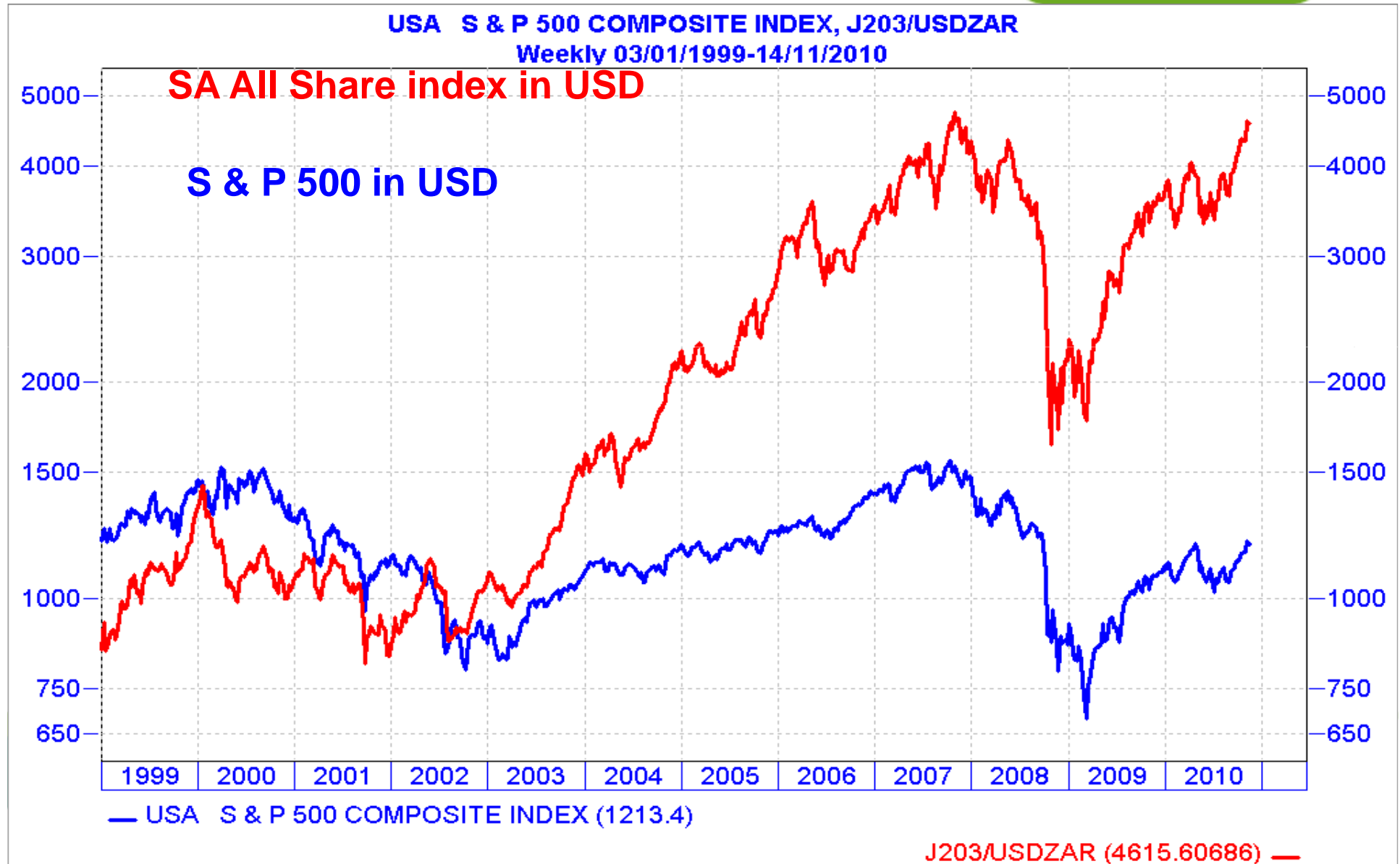
Local turned out to be much lekkerder...



FSPI*USDZAR, FTSE/JSE AFRICA ALL SHARE
Weekly 03/01/1999-14/11/2010



US & SA markets in US \$



Where are we saving?

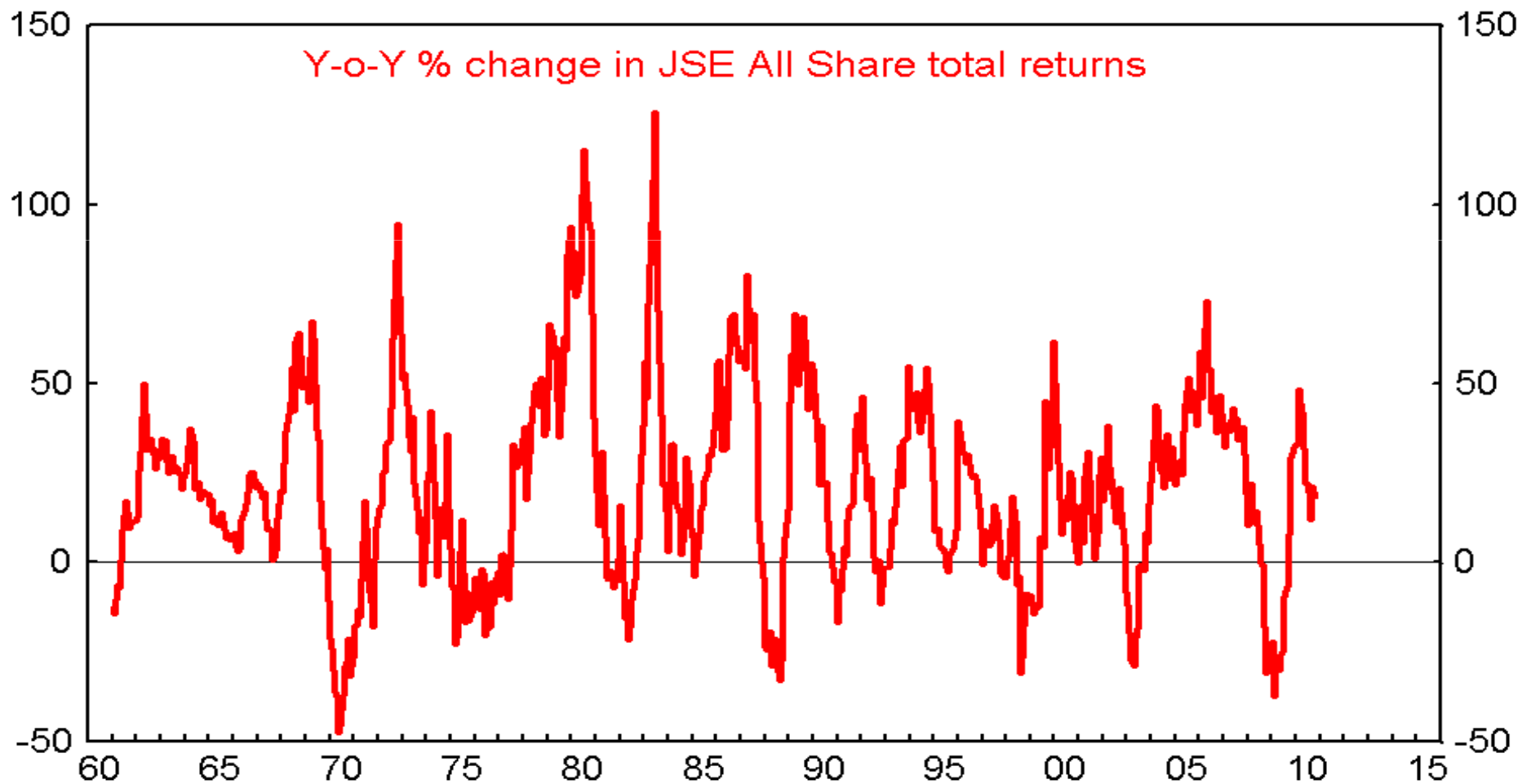


- ▲ Unit trust flows indicate some 70% of flows are still going into interest bearing investments or unit trusts with very low growth asset exposure
- ▲ While safe from the volatility inherent in equities, it is highly likely to yield *extremely poor returns* on an after-tax, after-inflation basis

Equities: A volatile investment



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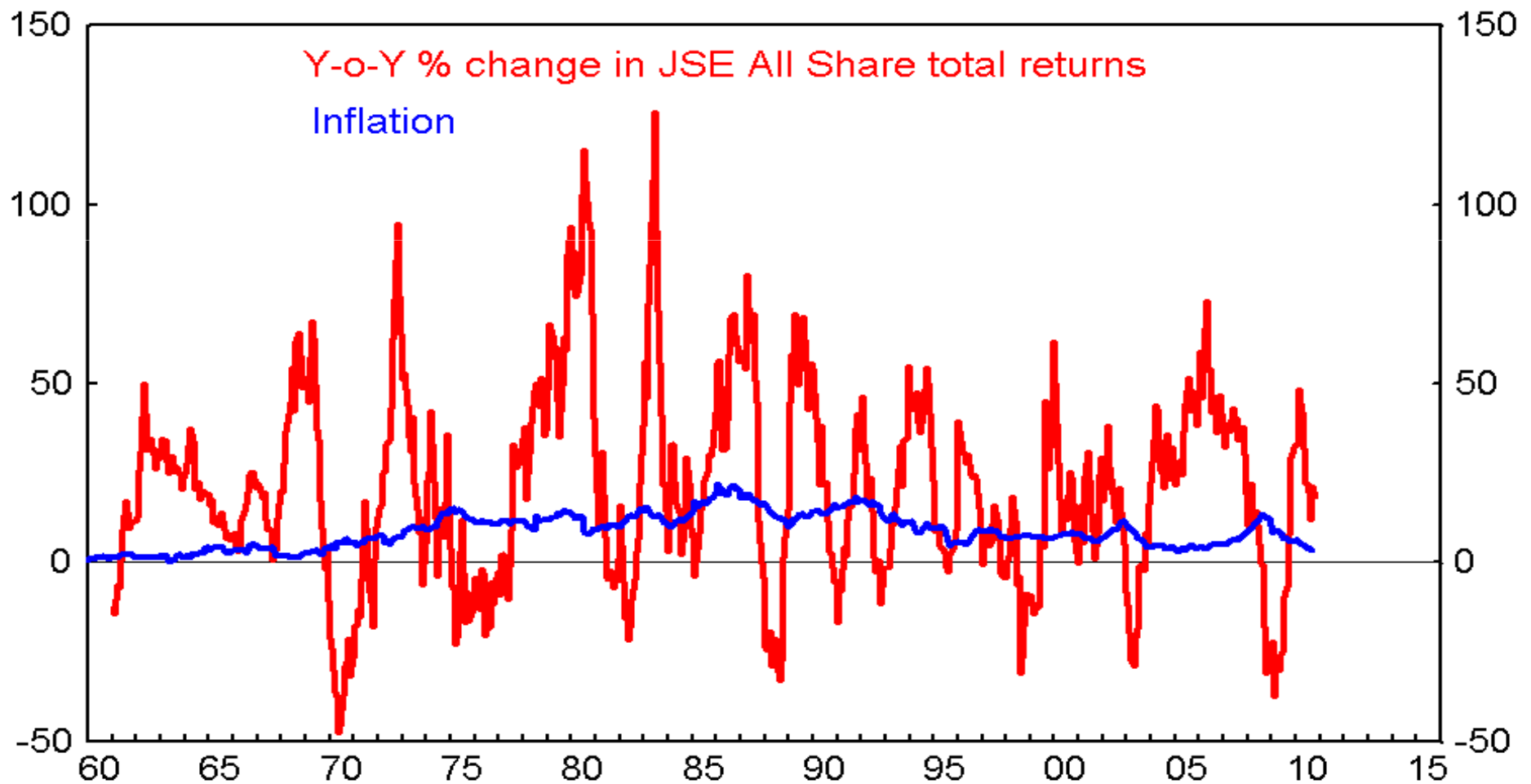


Equities: A volatile investment

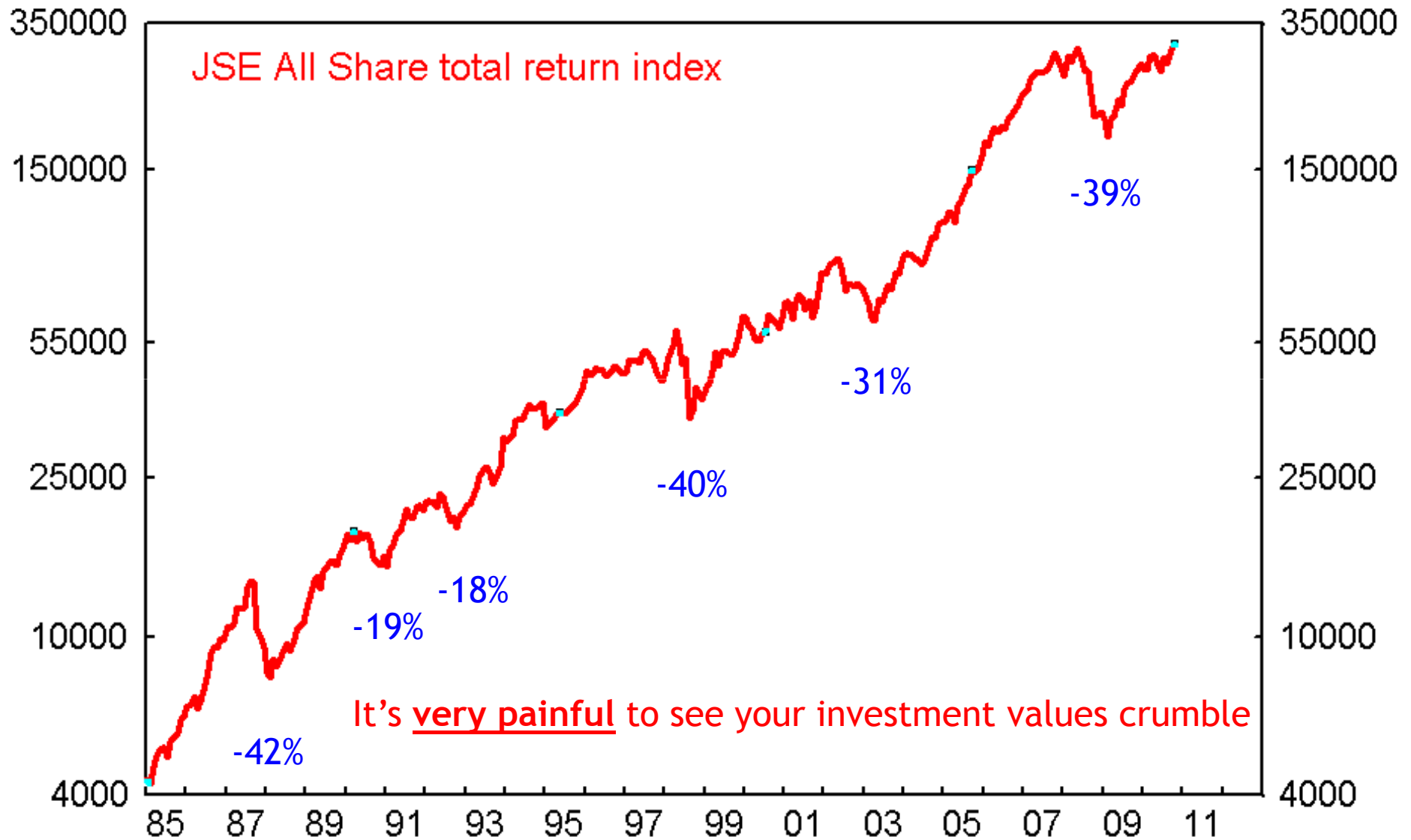
It can underperform inflation badly at times



Equities: A volatile investment



Shares can produce bouts of severe pain

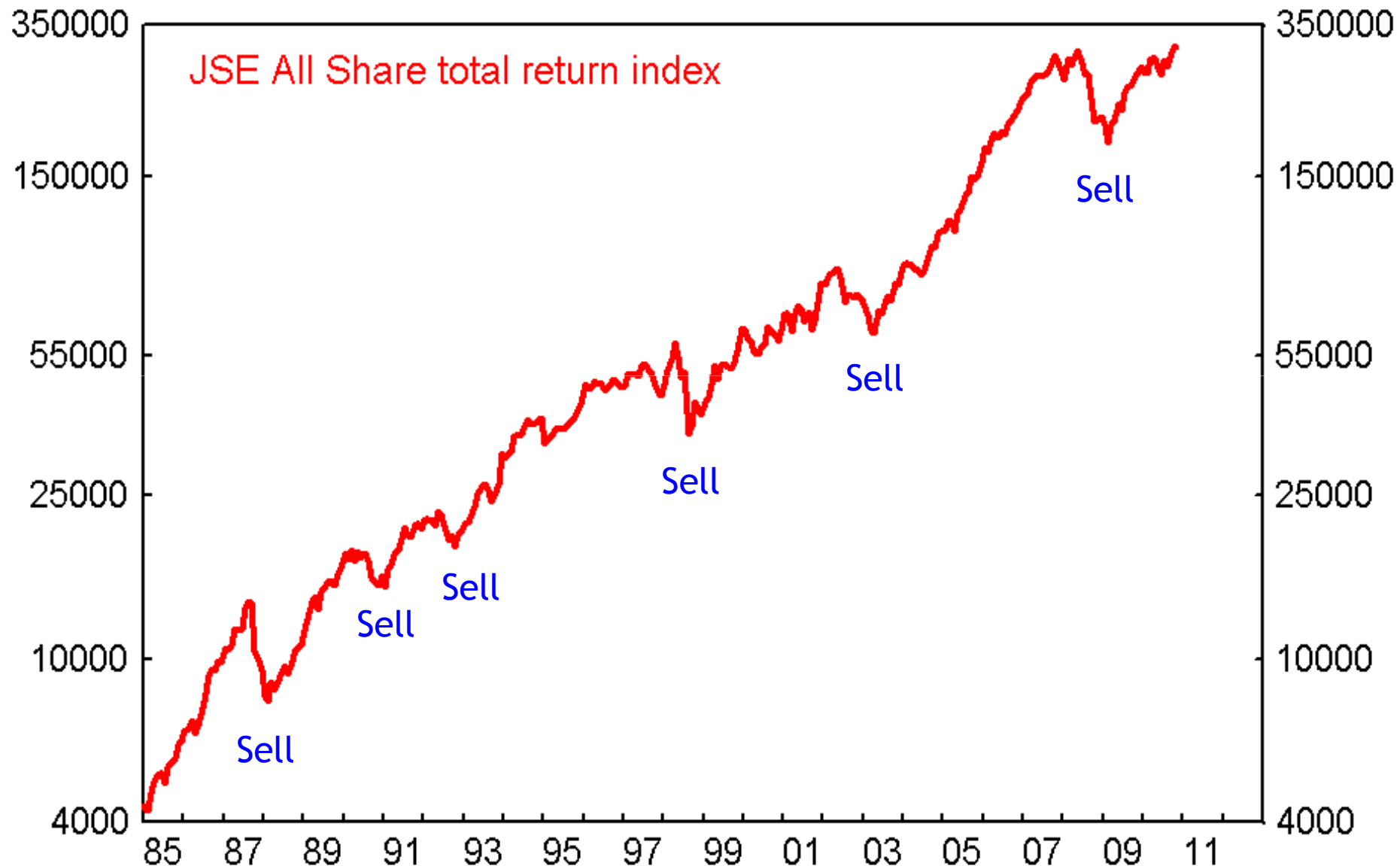




Add to this the natural human inclination.....

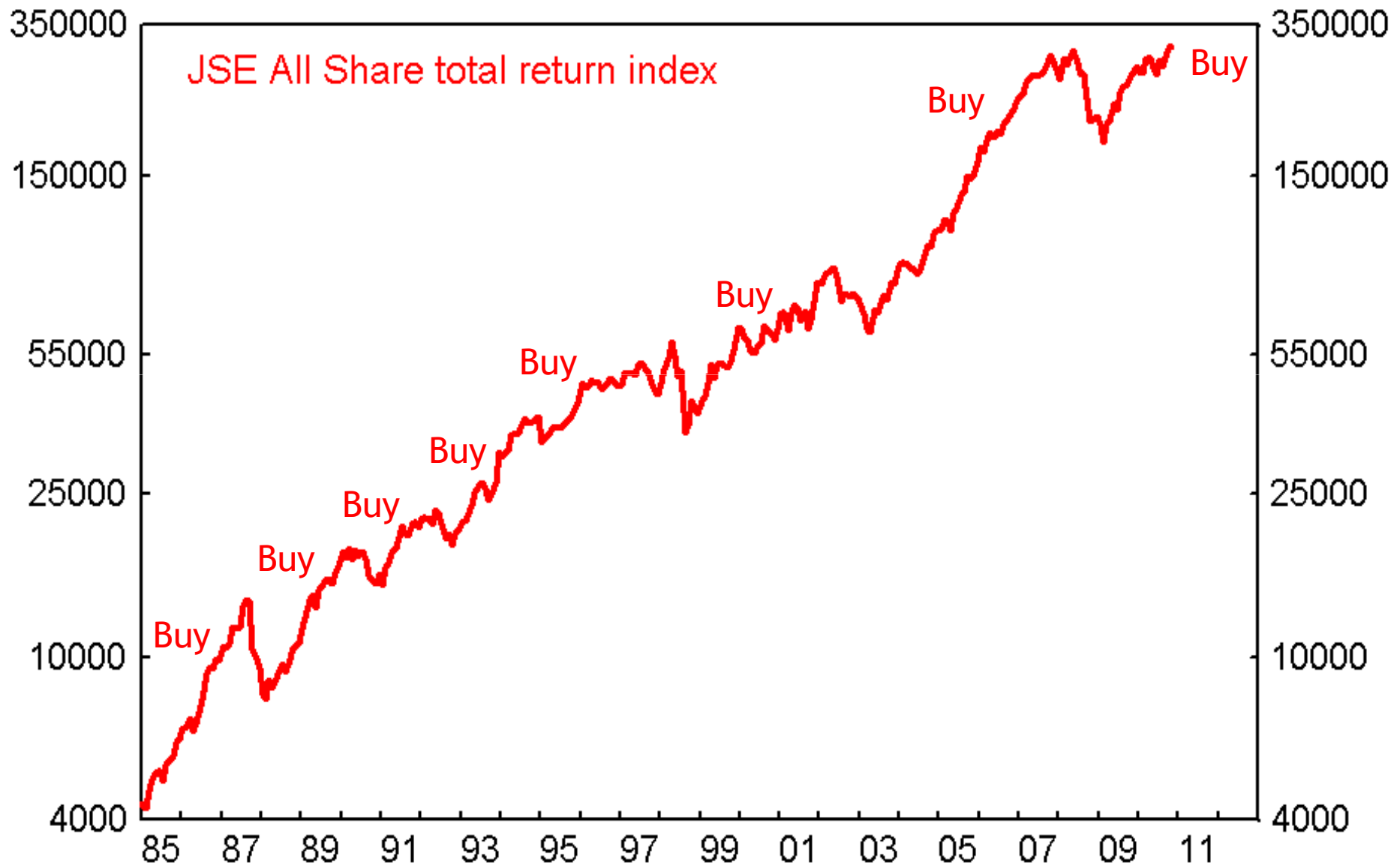
Add to this the natural human inclination...

...to sell when the market is down (it's the pain, you see...)



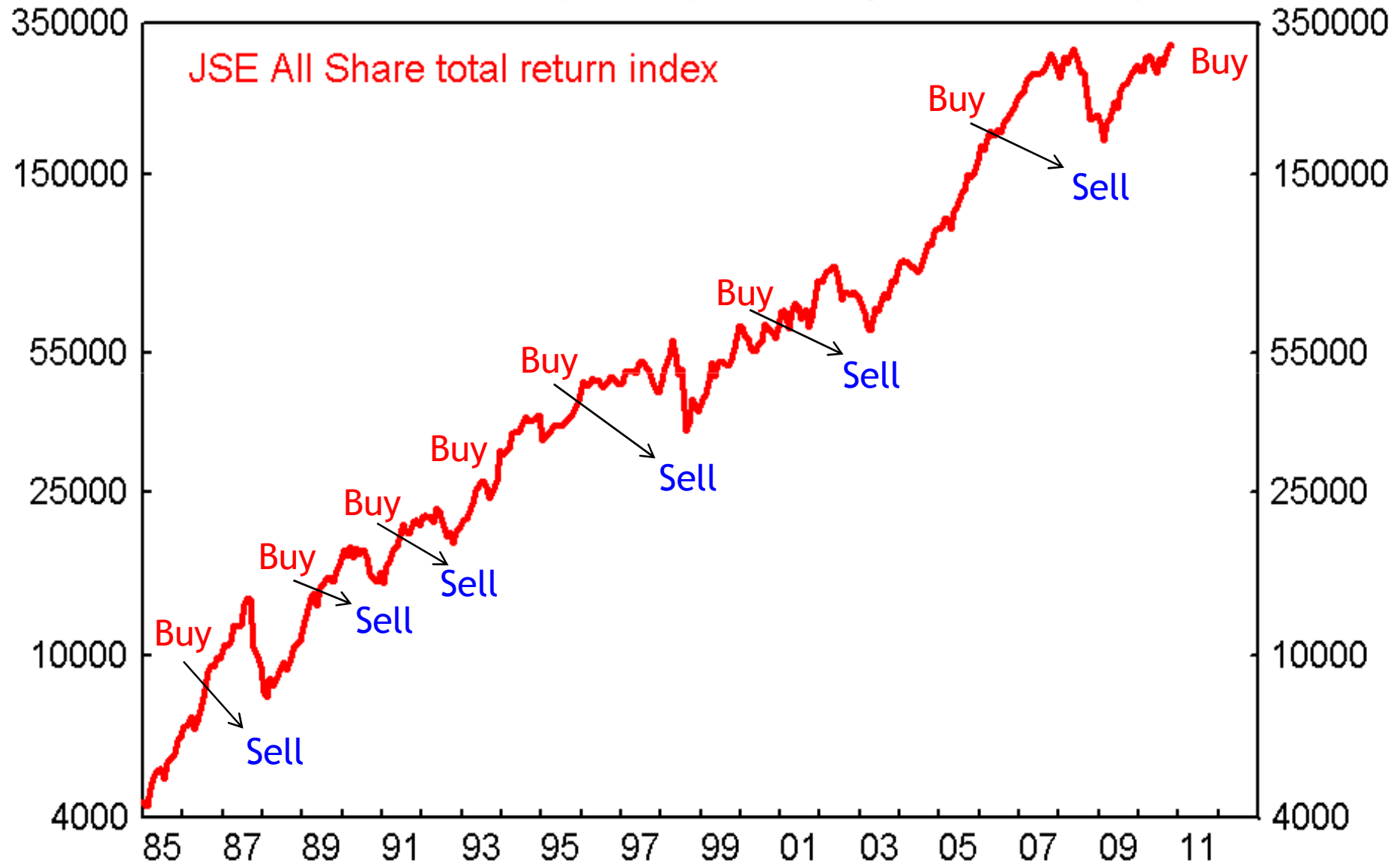
Add to this the natural human inclination...

..& to buy after the market has run (it's so easy then, you see..)



Add to this the natural human inclination...

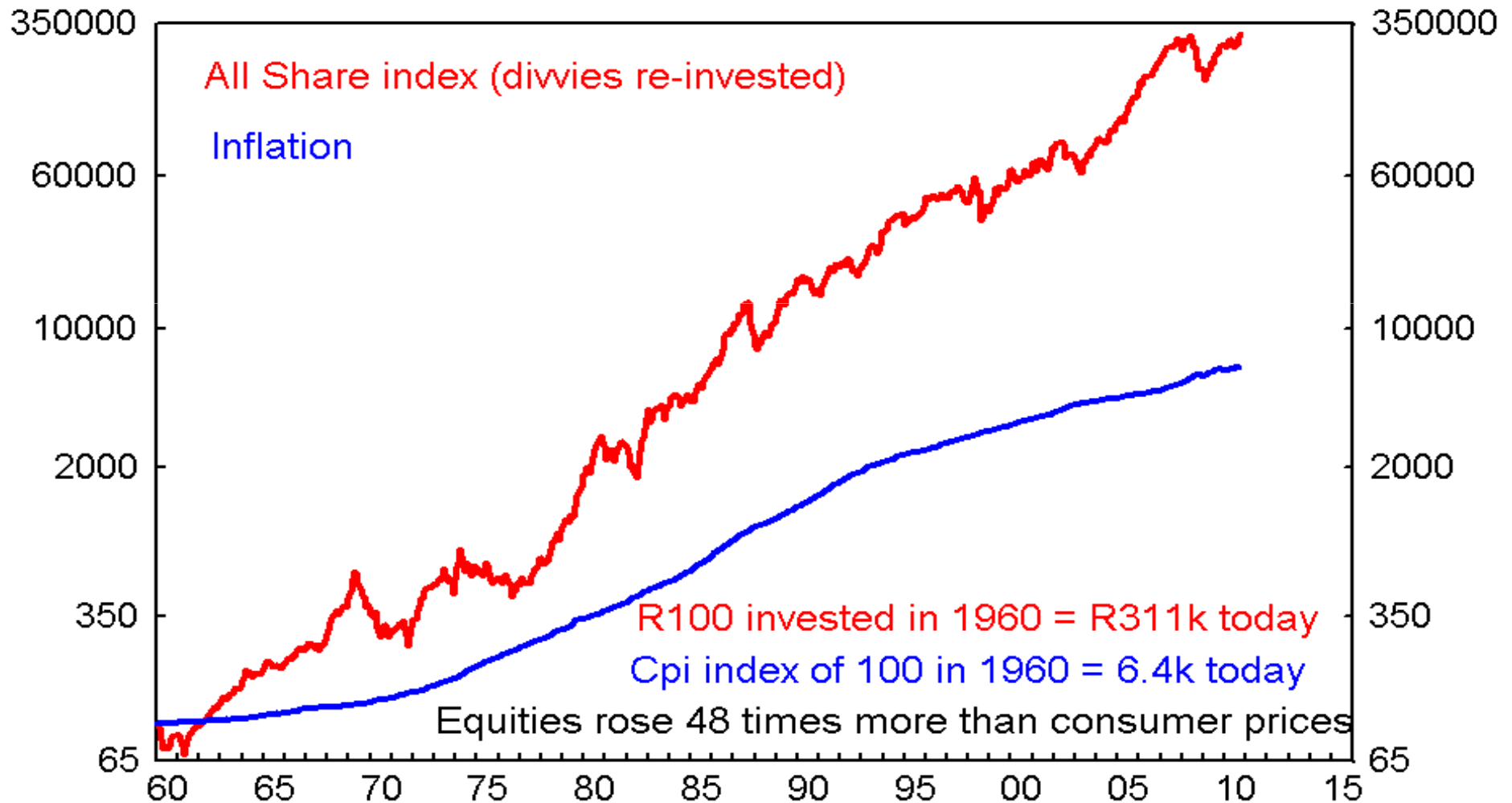
...and the risk of getting the sequence wrong...



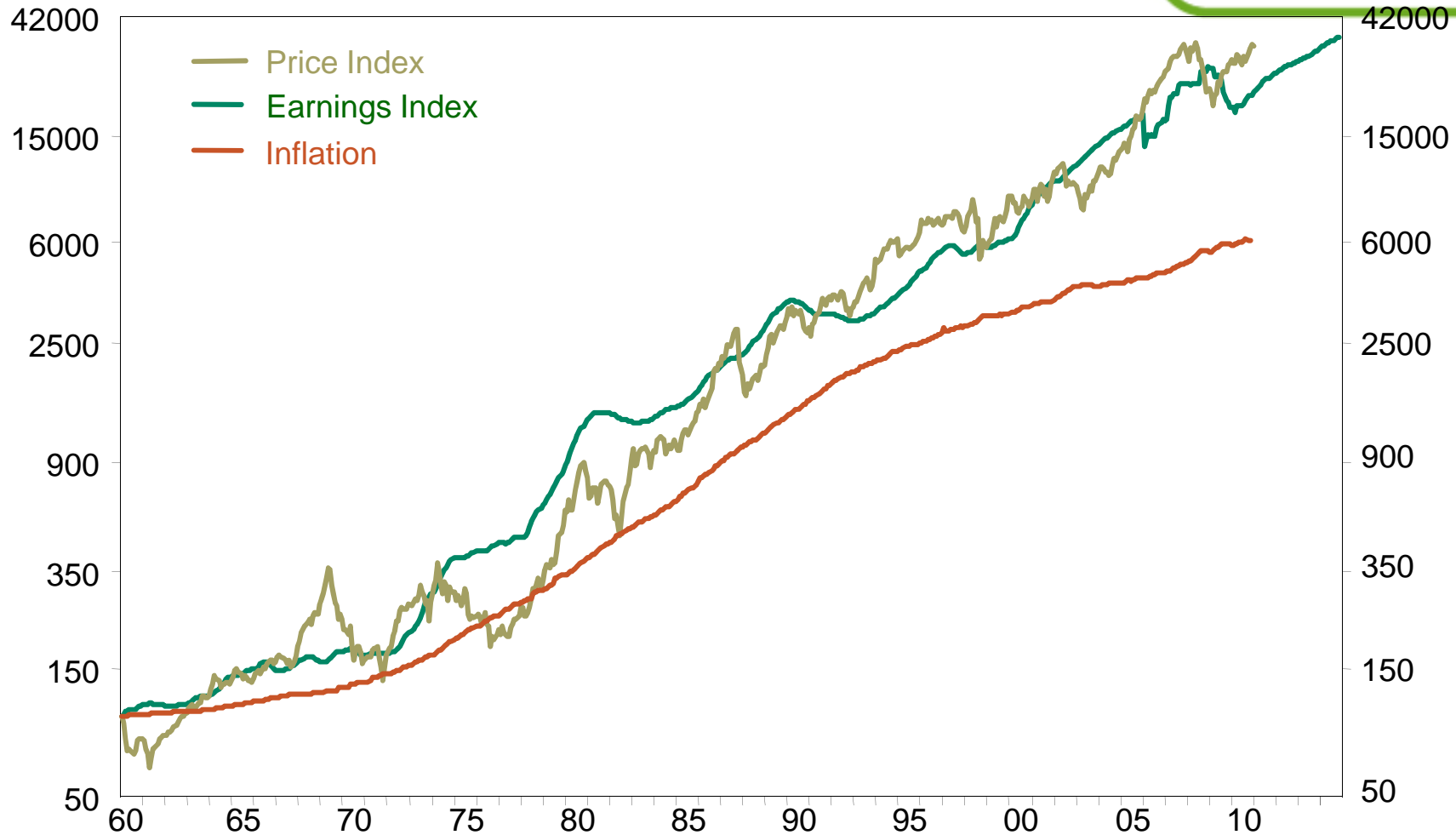
Despite volatility, equities are the place to be



Equity returns vs Inflation



Buy shares for income: divvies grow!!



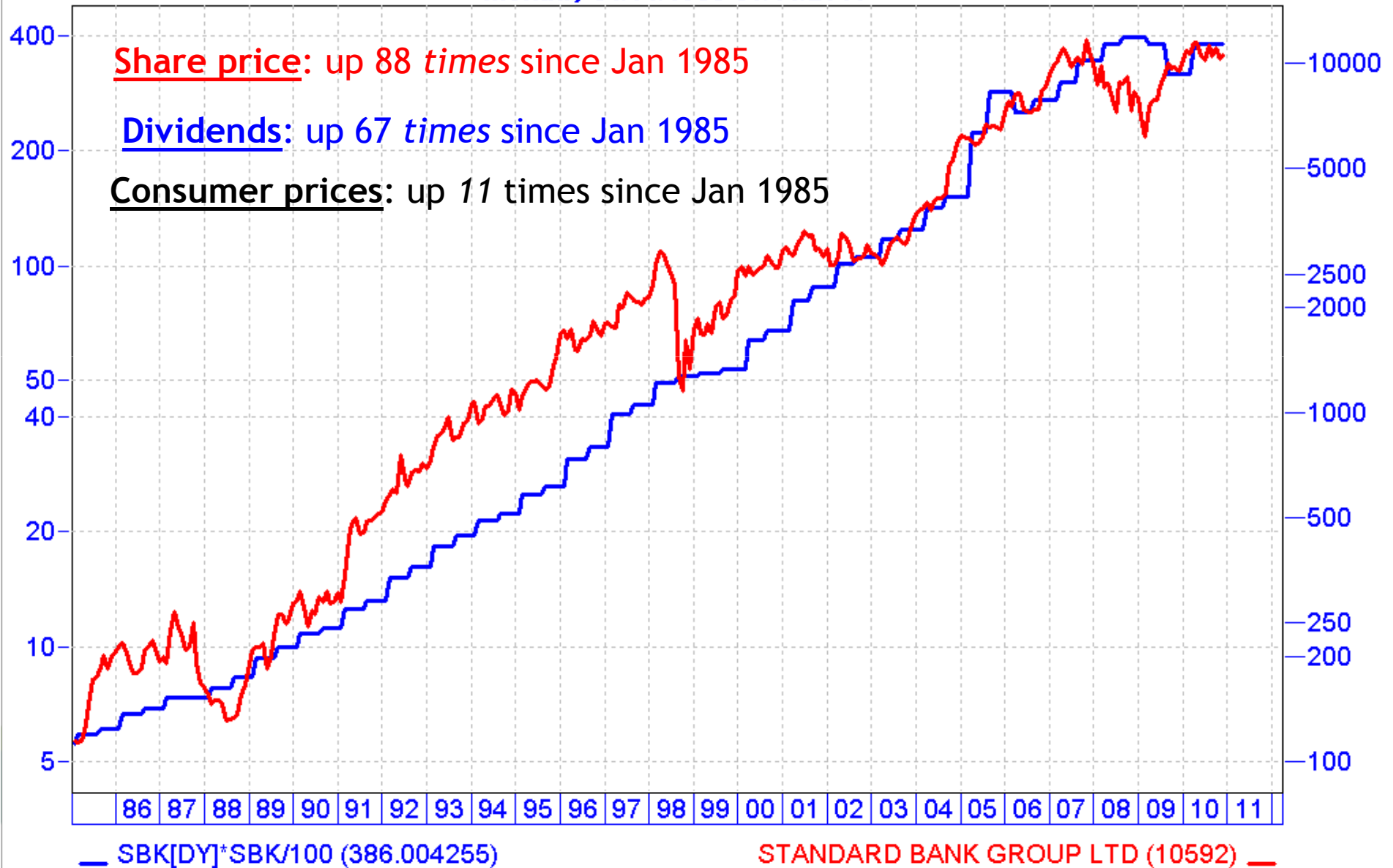
do great things



Standard Bank as an example



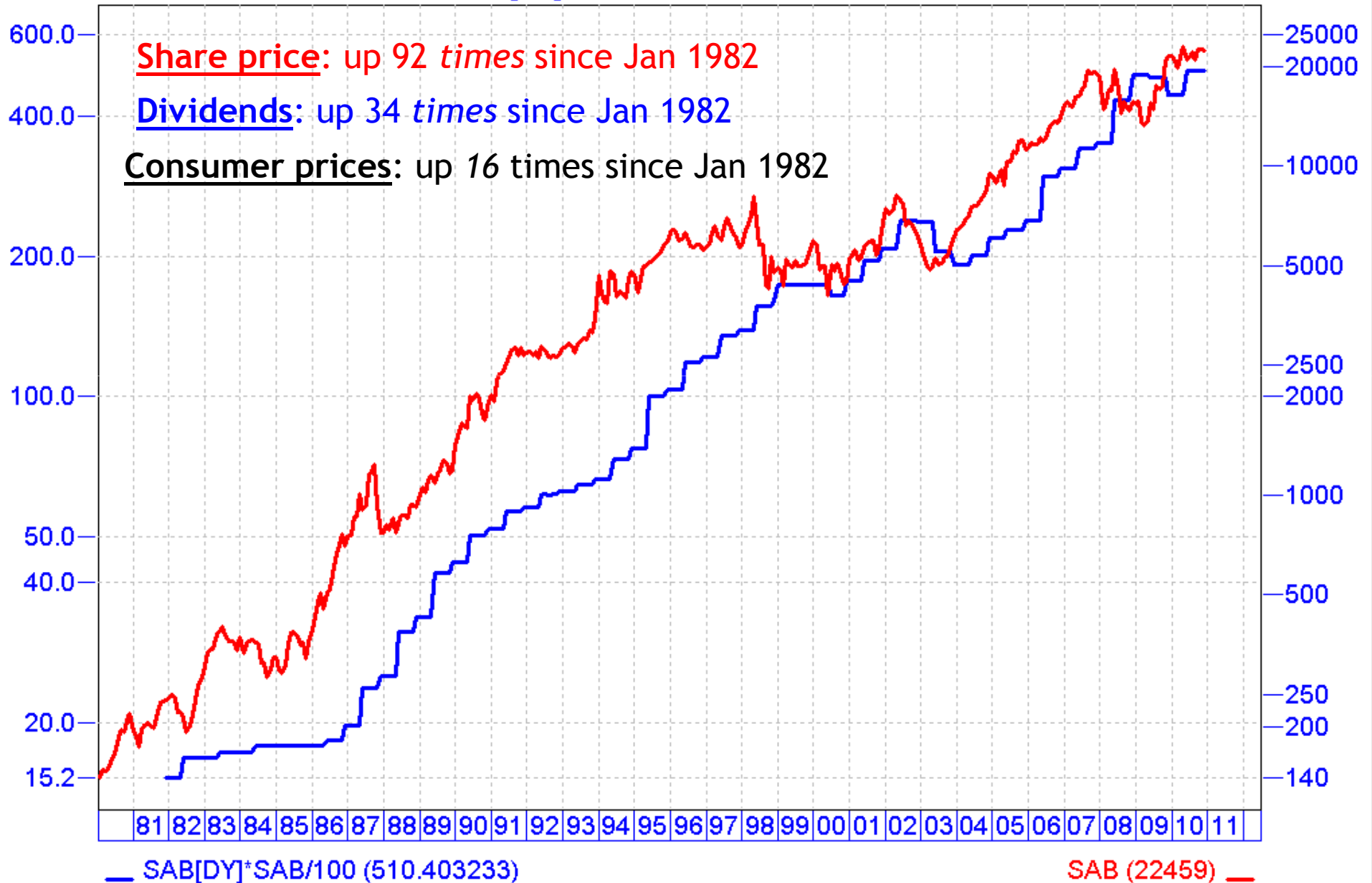
SBK[DY]*SBK/100, STANDARD BANK GROUP LTD
Monthly 31/01/1985-30/11/2010



SA Breweries as another example



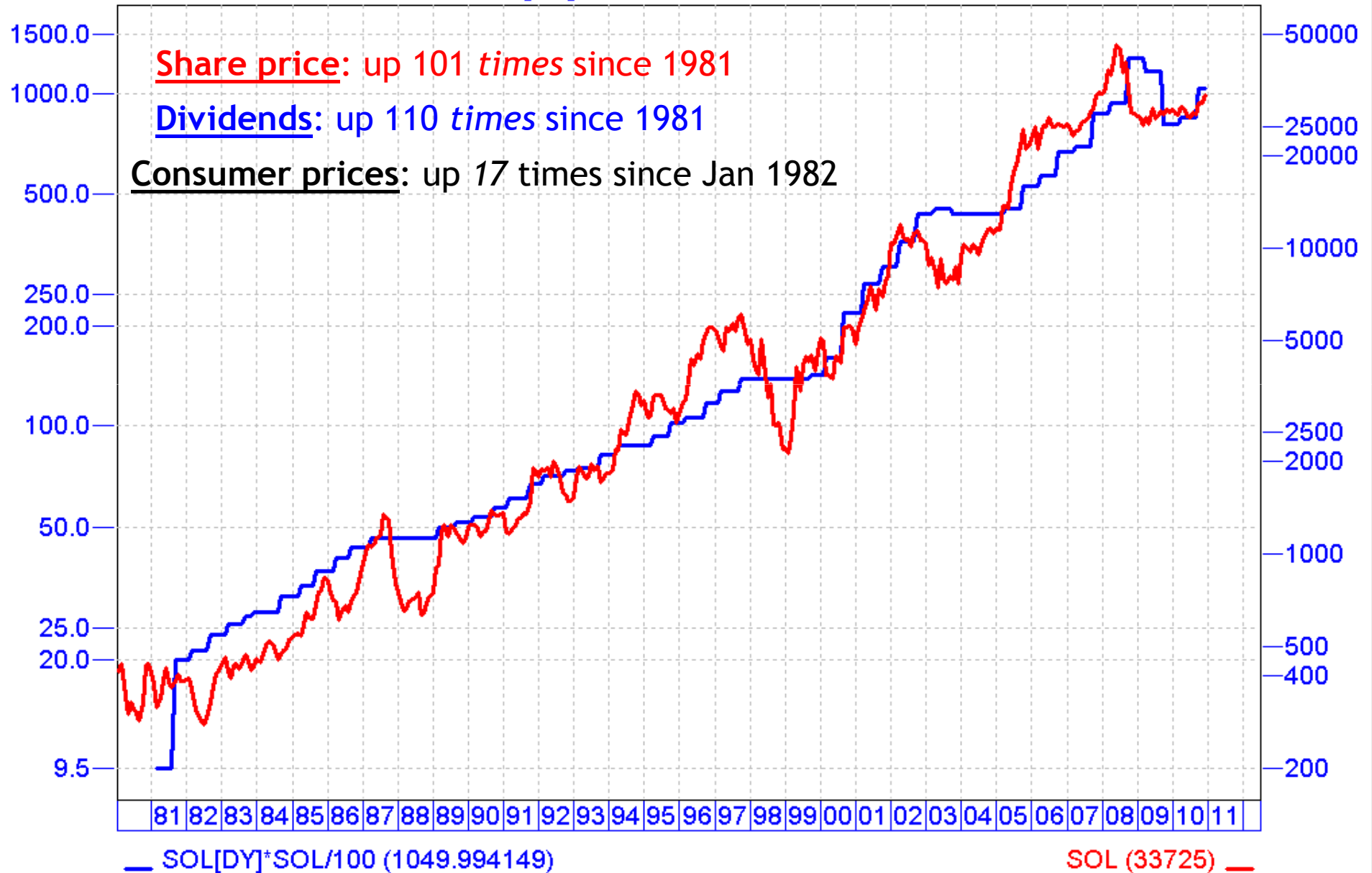
SAB[DY]*SAB/100, SIBMILLER PLC



Sasol as a final example



SOL[DY]*SOL/100, SASOL LIMITED



Average total returns (% p.a.)



1960 - 2009

SECTOR	10 YRS	10 YRS	10 YRS	10 YRS	10 YRS	50 YRS
	<u>60-69</u>	<u>70-79</u>	<u>80-89</u>	<u>90-99</u>	<u>00-09</u>	<u>60-09</u>
	(%)	(%)	(%)	(%)	(%)	(%)
SHARES	15.8	21.3	26.7	16.6	17.9	19.7
LT GILTS	4.5	6.8	11.8	19.5	13.5	11.2
CASH	4.4	8.2	14.8	16.2	10.0	10.7
INFLATION	2.5	10.3	14.7	9.4	6.2	8.6

do great things





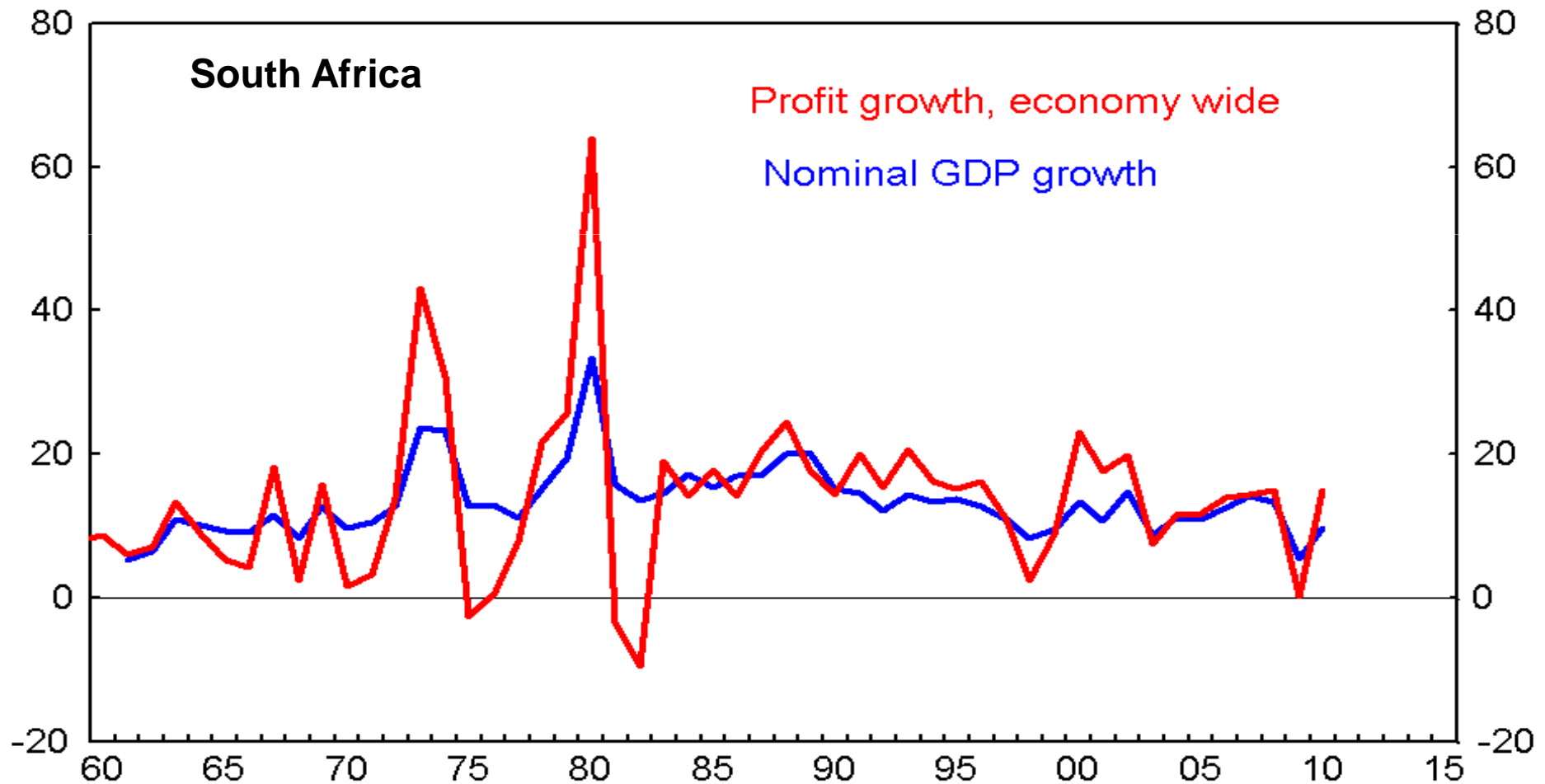
- Cash is trash
- Low return world
- Emerging markets
- Quest for yield (returns)

Profit growth vs nominal GDP growth



Profit growth vs nominal GDP growth

Over time, profits grow faster than nominal GDP

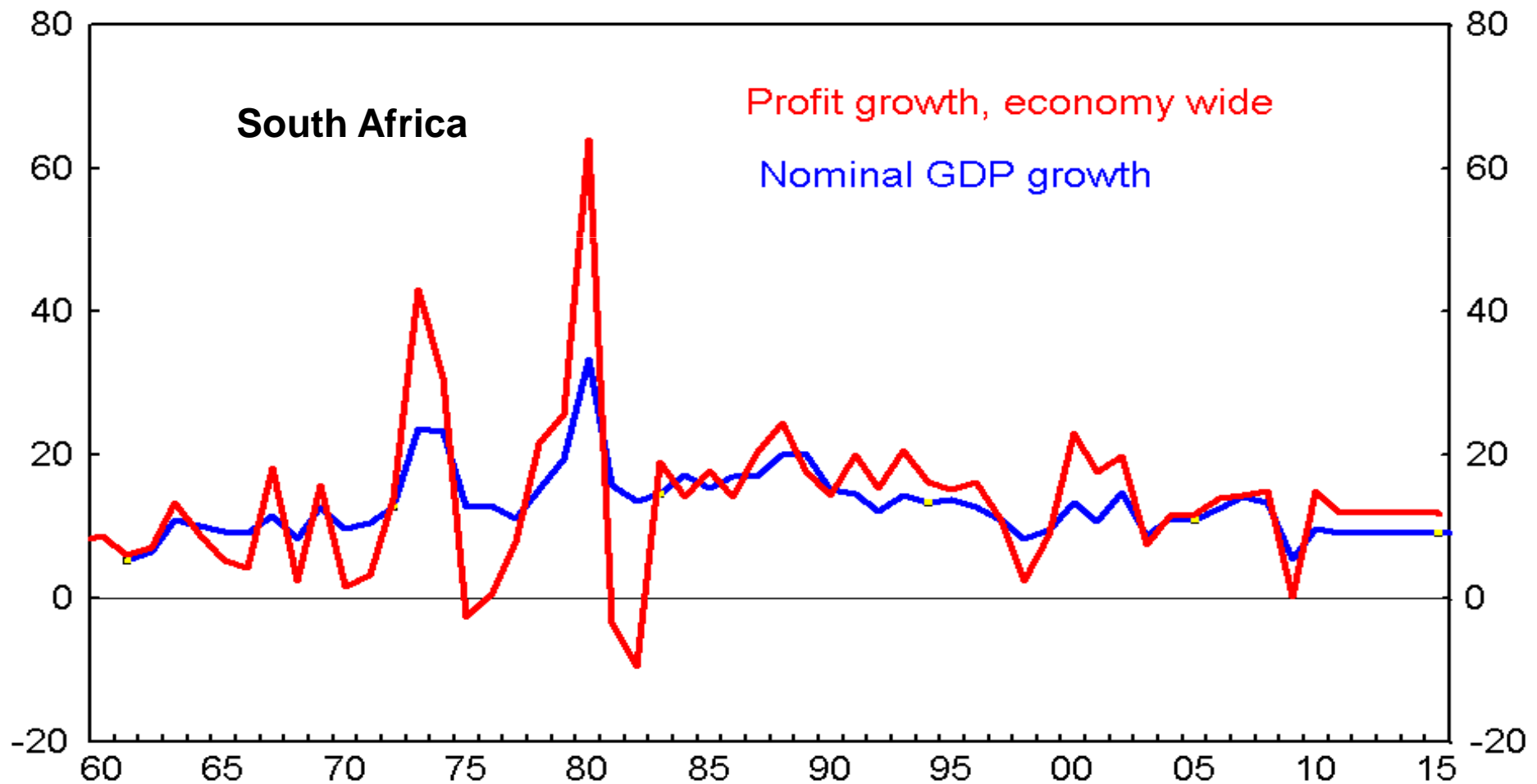


Profit growth vs nominal GDP growth



Profit growth vs nominal GDP growth

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Long-Term Asset Allocation view (5+ years)



	<u>Real Return</u>
SA	
Equity	6.5%
Property	6.0%
Bonds	3.0%
Cash	2.5% Lower?
International	
Equity	7.0%
Bonds	1.0%
Cash	0.0%

Summary and Conclusions



- South Africans are still saving way too little
- The little that they do save often goes into the wrong options *from the perspective of building capital for retirement*
- Invest your money through reputable institutions, be aware of your future needs and, especially, your current provisioning!
- Please start listening?



Thank You

do great things

