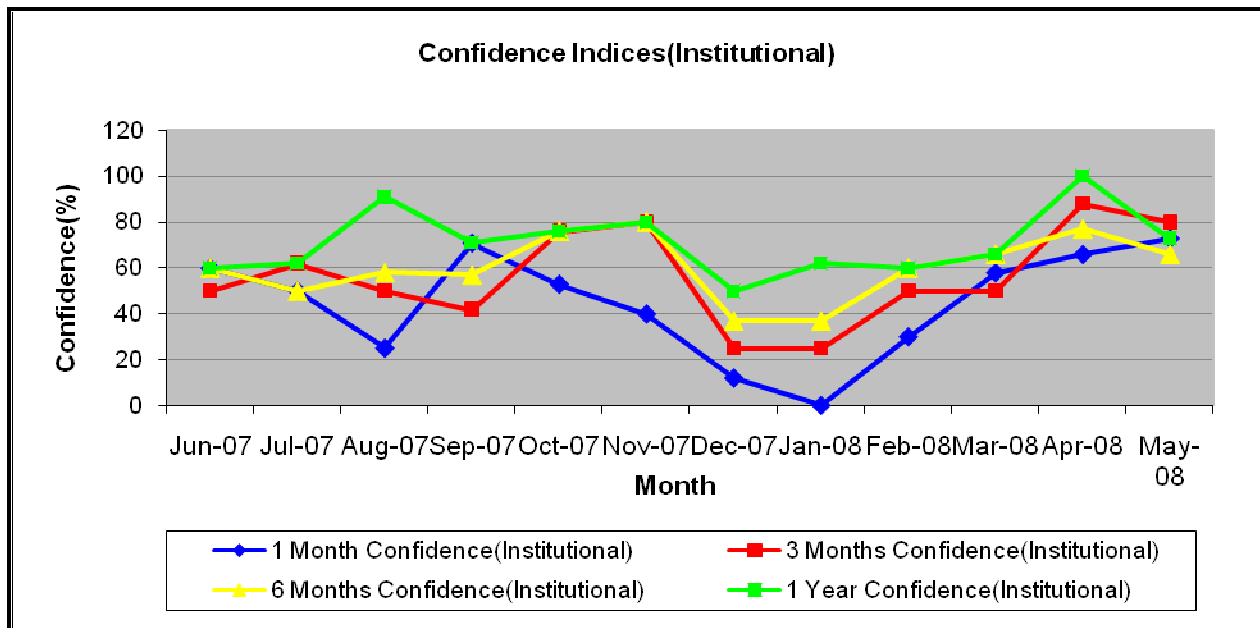
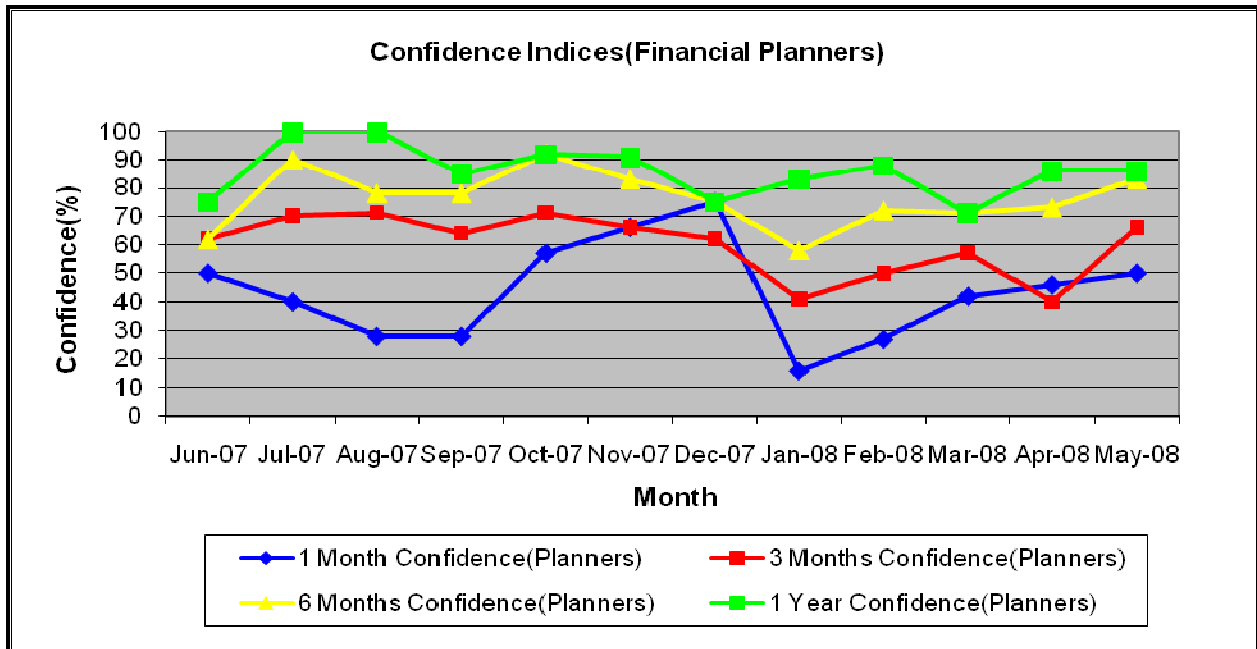


## SIM Investor Confidence Index: May 2008

The May survey results were again characterized by a big difference in the changes in views between Institutional Investors and Financial Advisors. In this month's moves the differences in changes in expectations indeed resulted in better convergence of views between the two groups and especially the expected returns foreseen in the market now shows almost no more short term bias and very little differentiation between institution's views and that of advisors.

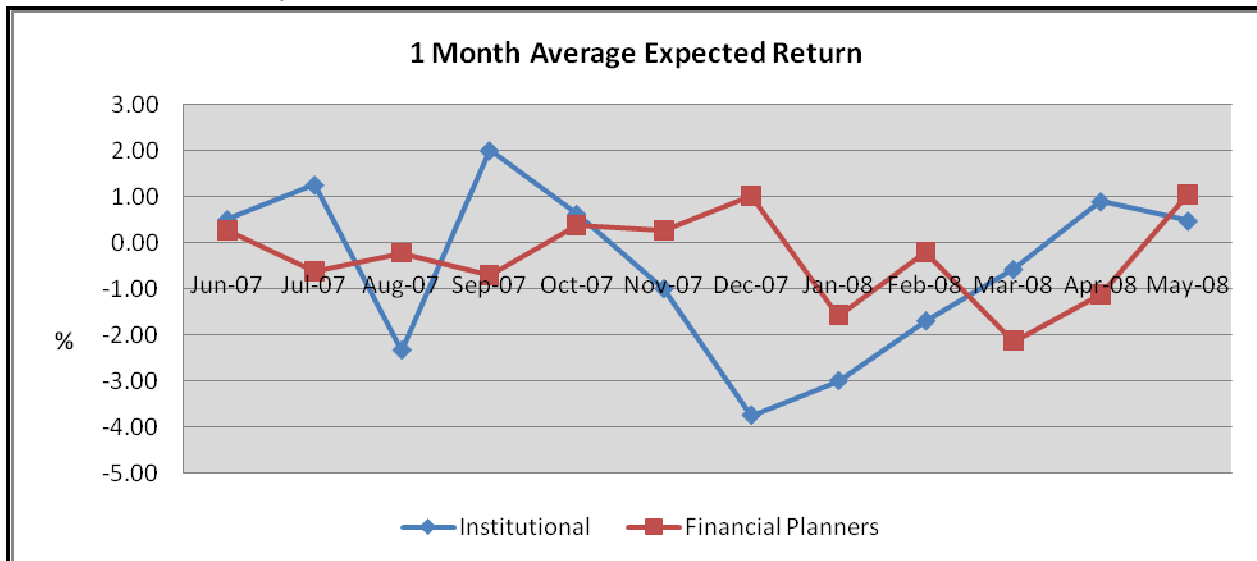
The surveys have previously demonstrated how expectations among advisors sometimes seem to lag that of institutions and the May results w.r.t. expected returns again confirm that. Whereas institutions turned significantly more positive in the previous month (actually surprisingly so), they actually got a bit more conservative in May w.r.t. to their outlook, whereas advisors reported a much more positive outlook in May – similar to the institutional improvement seen in the previous month.

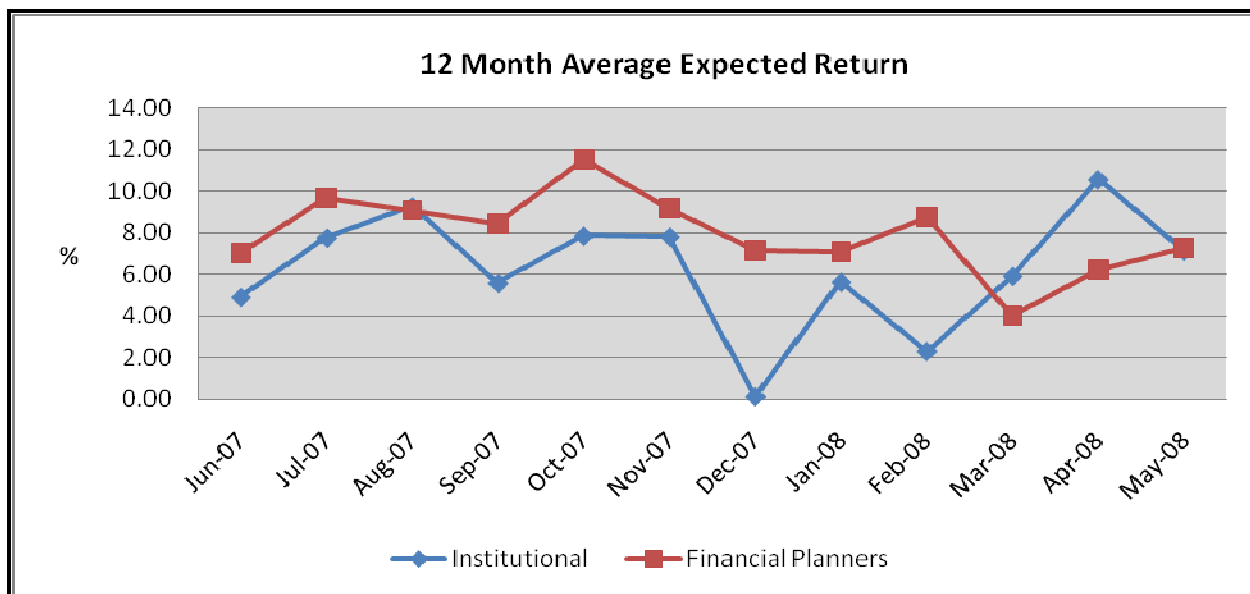




**Note:** The confidence index is the percentage of respondents who expect the JSE All-share index to end positive at the end of the period.

The combined (and individual) results for the two groups now show positive return expectations over all time periods. Over 1 month it is just under 1%; over 3 months it is just over 2%, over 6 months it is close to 4 % and over 12 months just over 7%. The fall in 6M and 12M expectations among institutions could be interpreted as a surprise given that underlying market movements have actually been quite limited since the previous survey. However, one could also rather interpret the previous month's jump as the surprise and this month's pull back as the return to more realistic, conservative expectations – a view we would share. The number of respondents expecting a positive 12M return has dropped from 100% to 73%, but again the 100% is more the one that seems to be the outlier and the current number would be in line with a slow but steady uptrend seen since the confidence lows of December 2007.

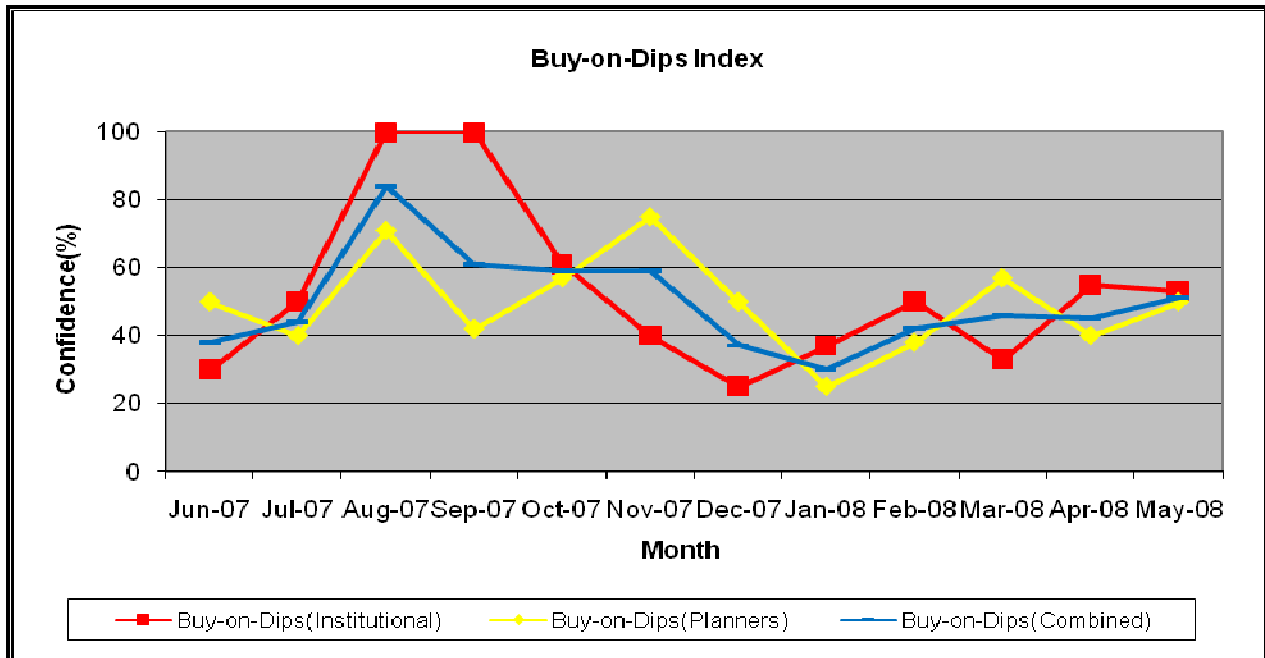




The 1 and 12 month expected returns shows that for the past 2 months financial planners were generally more negative in their return expectations as opposed to the institutions. The same holds for the 3 and 6 month periods. However, this group has now moved closer to the institutional group.

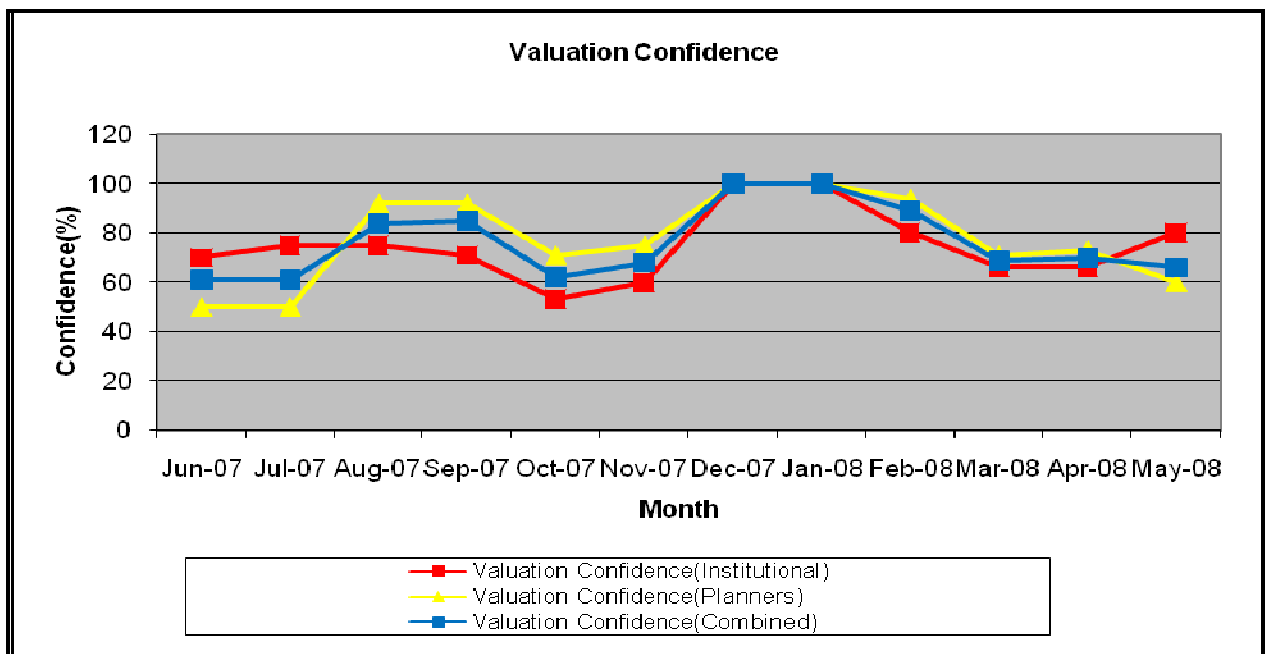
In reality the tug-of-war continues between on the one hand US economic policy makers, especially the Fed, who wishes to support the financial system in order to fuel growth and stimulate employment and on the other hand the private sector which is tightening lending standards and defending capital in the face of credit related losses and in the process bringing about slower growth. The outcome of these two powerful forces won't be known for a while still and so the volatility (in markets and sentiment) will prevail. But people seems to be getting use to the tussle and as long as there are no new major blows by either side, they seem to slowly be growing more confident that market returns will be normal.

The one area where institutions' views seem to conflict with this seemingly increased confidence is in the buy-on-dips index. Their expectation for returns on the day after a 3% drop had dropped from +0.5% to almost -1%. The advisors' expectation jumped up by almost the same magnitude and the two almost cancelled each other. This will however always be a volatile number when the risk for shocks are high and despite the changes in the current numbers, the absolute levels are low compared to some previous surveys. Furthermore the institutional results could still be reconcilable with more normal returns in that investors could be interpreting the base case in the tug-of-war to be one where the probability of shocks are getting less, such that should a shock then occur – to the extent that it sends the market down by 3% in a day – it would be such a surprise that the market won't recover the day thereafter. Alternatively it could express a (small) view that the Fed's ammunition is starting to run out and hence that despite the fact that they think the Fed has fired enough shots, should it be wrong further shocks would become more and more difficult to "fight".



**Note:** The Buy-on-Dips index is the percentage of respondents that indicated that the market will increase the day after a 3% drop.

On the price of the market, institutions got more optimistic in the last month, thinking on average that the market is getting slightly cheap, while advisors got more pessimistic thinking on average that the market is becoming more expensive. About 80% of institutional investors now think the market is either fairly priced or maybe even too cheap, while the percentage of advisors that share that view has dropped to about 60%.



**Note:** The Valuation Index is the percentage of respondents who said that the market is priced correctly or low.

**Thank you:**

**Frederick White, Head of Research at Sanlam Investment Management.** Frederick's insight makes this report possible each month.

To all our respondents who complete the questionnaire each month.