Media release

**SA INVESTORS REMAIN CAUTIOUS ABOUT THE LOCAL EQUITY MARKET**

*Results from Sanlam Investment Management (SIM) Investor Confidence Index*

*- a monthly survey conducted by the Institute of Behavioural Finance (IBF) among institutional investors and financial advisors*

Cape Town, 23 August 2010: Negative sentiment, driven by ambiguous and continuously contradicting information from local and global market players, continues to control investor behaviour. This is according to the results of the July Sanlam Investment Management (SIM) Investor Confidence Index (ICI) survey. Since the beginning of the year, the JSE All Share Index has given investors a return of only 0.75 percent with much volatility. Resource stocks may have been the main detractors from performance, but respondents to the survey have still become increasingly negative on future equity returns in general.

Candice Paine, head of retail at SIM says it’s hardly surprising given the significant declines experienced by local and international bourses last week. “The August survey shows that most investors became more pessimistic about the shorter term outlook for stock market returns, but not significantly more so than they were in January 2010. Although both groups of respondents still largely expect positive returns from equities over the next 12 months, these expectations declined from 7.66 percent in June to 5.79 percent in August. Such muted one-year returns imply that the expectations for performance over the next one- and three- month periods are a mere – 0.13 percent and 0.85 percent respectively,” says Paine.

The investor confidence index survey is conducted on a monthly basis with two groups consisting of financial advisors and institutional investors. The study of stock market sentiments is known as behavioural finance – a field of study that has consistently shown that uncertainty creates negative sentiments and lower investment confidence.

Paine says, in support of the more cautious outlook, few respondents still believe the market is cheap. “40 percent of total respondents believe SA stock prices are expensive compared with measures of true fundamental value, while 52 percent view stock prices as offering fundamental value. Institutional investors, in particular, are unequivocal in their opinion, with not one of the respondents considering the market undervalued. This shift in sentiment may be in recognition of the likelihood of a long, slow recovery and the fact that company earnings may need to be revised down further as the impact of slowing top-line growth and further cost cutting starts trickling down to the bottom line,” she says.

“The silver lining, however, is that 62 percent of respondents continue to believe there is less than a 10 percent chance of a 1928-style market crash occurring in the next six months. Further, 47 percent of them expect the JSE All Share to rebound the day after a 3 percent drop. This implies that investors are starting to accept the short-term market volatility and a receding anxiety is coming through in the numbers. So while the probability of a double-dip recession seems unlikely, investors certainly expect markets to remain range bound in the foreseeable future,” says Paine.

Gerda van der Linde, executive director at the Institute for Behavioural Finance (IBF), an independent research organisation that conducts the survey, says, “The August 2010 results confirm that investor sentiment remains at the bottom end of *the cycle of negative market emotions,* with small rays of hope emerging occasionally, only to disappear in the face of renewed feelings of depression the following month. Normally market emotions, often referred to as sentiments, follow the same cycles through peaks and valleys as the stock market price cycles - reaching delight and euphoria when stock markets are high, and falling into despondency and depression when stock markets are down. The study of stock market sentiment is known as behavioral finance – a field of study that has consistently shown that uncertainty engenders negative sentiment and lower investment confidence.”

Van der Linde says “A study of the current cycle of market emotions explains recent investor behavior, as reflected in the results of the SIM Investor Confidence Index survey. Negative sentiment has taken control of investor behavior, driven by ambiguous and continuously contradicting information from local and global market players as portrayed in the media. Market information reaches investors, filtered and framed, and serves as confirmation that markets remain volatile and unpredictable in the short term. With this frame of mind, investors are pre-disposed to emphasize and recall mainly recent negative information; thereby confirming their pessimistic beliefs. From behavioral finance studies it is known that in scenarios like the current situation, investors tend to get caught in entrenched negative sentiment. Unfortunately this negativity is extrapolated into the future, and it is therefore unlikely that a change in sentiment will occur over the next three months, as confirmed in the latest survey results.”

She says that in these uncertain times it is in the best interest of investors to base their investment decisions on disciplined investment processes. Van der Linde says, “This will reduce the risk of making hasty decisions that are detrimental in the long term to an investment portfolio and returns. Adopting a disciplined and long-term investment approach during times of high and low volatility enables the investor to control irrational negative sentiment during volatile market periods.”

Van der Linde says the strength of such a strategy is confirmed by what Benjamin Graham (often seen as the father of value investing) has said, "Individuals who cannot master their emotions are ill-suited to profit from the investment process."



Candice Paine, head of retail at SIM (please email for a high resolution version)

Ends

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Notes to editors:

**About the Sanlam Investment Management Investor Confidence Index**

The Sanlam Investment Management Investor Confidence Index is based on the Yale School of Management Stock Market Confidence Index which has been conducted in the USA since 1984 and in Japan since 1989. It is run in conjunction with the Institute of Behavioral Finance.

The full report is available on:

<http://www.sanlam.co.za/wps/wcm/connect/fd22ec0043b01bbaacbeed3cc43cb3ca/ICI+August+2010.pdf?MOD=AJPERES>

The index is reported in four main categories: One-Year Confidence Index, Buy-On-Dips Confidence Index, Crash Confidence Index, and Valuation Confidence Index. The One-Year Confidence Index relates to the expected percentage change in the JSE All-share Index for the periods of one month, the next three months, the next six months and the next year. The Buy-On-Dips Confidence Index gives participants a chance to estimate how the JSE All-Share Index will do the day after tomorrow if it were to drop by three percent tomorrow.

**Sanlam Investment Management (SIM)**

Part of the Sanlam Investments, SIM is the second largest asset manager in South Africa with more than R270 billion in assets under management. A multi-specialist asset manager. SIM consists of six multi specialist teams - equities, fixed interest, absolute return, liability driven, active quants and balanced funds - which share a common research platform. SIM provides traditional and alternative investment management services to the Sanlam Group, as well as to third party institutional and retail clients.

In 2010 SIM, along with Sanlam’s other unit trust management businesses, was ranked as the top South African in-house manager at the Morningstar Awards, the world’s leading unit trust awards. For more information, visit [www.sim.sanlam.com](http://www.sim.sanlam.com) and for more insights into the investment world, visit our blog [www.simintelligence.co.za](http://www.simintelligence.co.za)

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