



Monthly Investor Confidence Index

April 2011

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Key Insights (Press Release)

DON'T EXPECT REAL GROWTH FROM EQUITIES IN THE NEXT 12 MONTHS

Financial advisors have a more optimistic outlook on expected equity returns and the market valuation of local equities than institutional investors, according to the latest South African Investor Confidence Index.

Institutional investors who participated in the South African Investor Confidence Index survey earlier this month expect zero nominal returns from JSE equities over the next six months and negative real returns over the next 12 months. The financial advisor participants still hope for an average expected return above inflation from JSE equities over the next six and 12 month periods.

“The financial advisors expect returns to be 2.65 percent higher over the next six months and 3.45 percent higher over the next 12 months than the returns expected by institutional investors,” says Gerda van der Linde, executive director at the Institute of Behavioral Finance.

“Almost 70 percent of the institutional participants believe the market is currently expensive, while the balance sees the market as fairly priced,” she says. “Half of the financial planners view the market as expensive, while the other 50 percent believe the market is fairly priced.”

Positive feedback reflects in the Crash Confidence Index, with 73 percent of institutional participants thinking there is a less than 10 percent chance of a catastrophic market crash occurring. This is the fourth time since the inception of the survey in 2007 that at least 70 percent of institutional participants have voiced confidence in the sustainability of the current levels on the JSE, says Van der Linde.

“In analysing the results of the index, the message for South African investors may well be that financial advisors are more optimistic about the market than market signals justify,” she says.

In light of this, financial advisors' views may differ from their clients' expectations of equity returns over the next 12 months. She believes any major differences in views may well adversely influence financial advisors' relationships with their clients.

A recent study by a Boston-based investment management company found that financial advisors misperceive clients' sentiments and motivations about investment types and risk tolerance. Financial advisors should note from this study that improved communication is essential to better understand clients and clarify perceptions, she says.

“Financial advisors need to rethink how they communicate with their clients. They should focus more on asking questions and listening to their clients’ answers, as well as discussing with their clients risk tolerance and the impact of risk on investment returns over various investment periods.

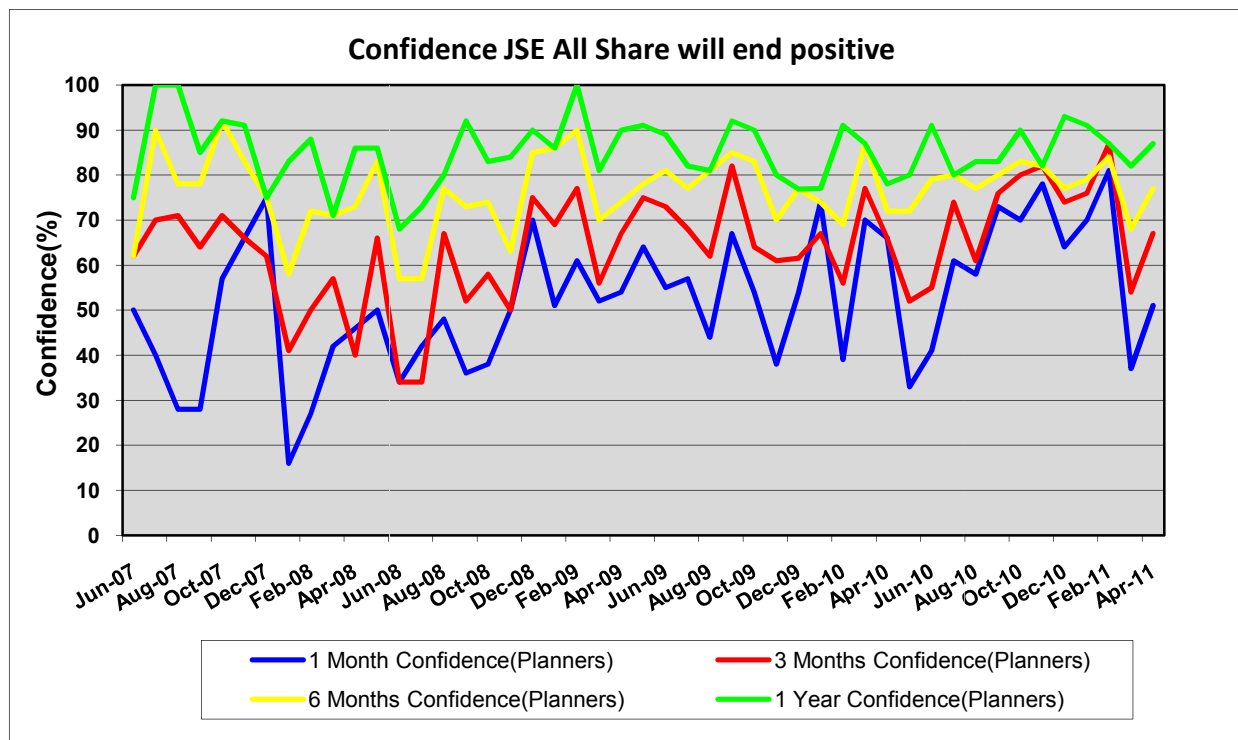
“This strategy may prove to be vital in retaining clients’ trust,” says Van der Linde. “The only way for a financial planner to get the client on the same side of the table is to increase communication – and communicate even more in volatile market conditions.”

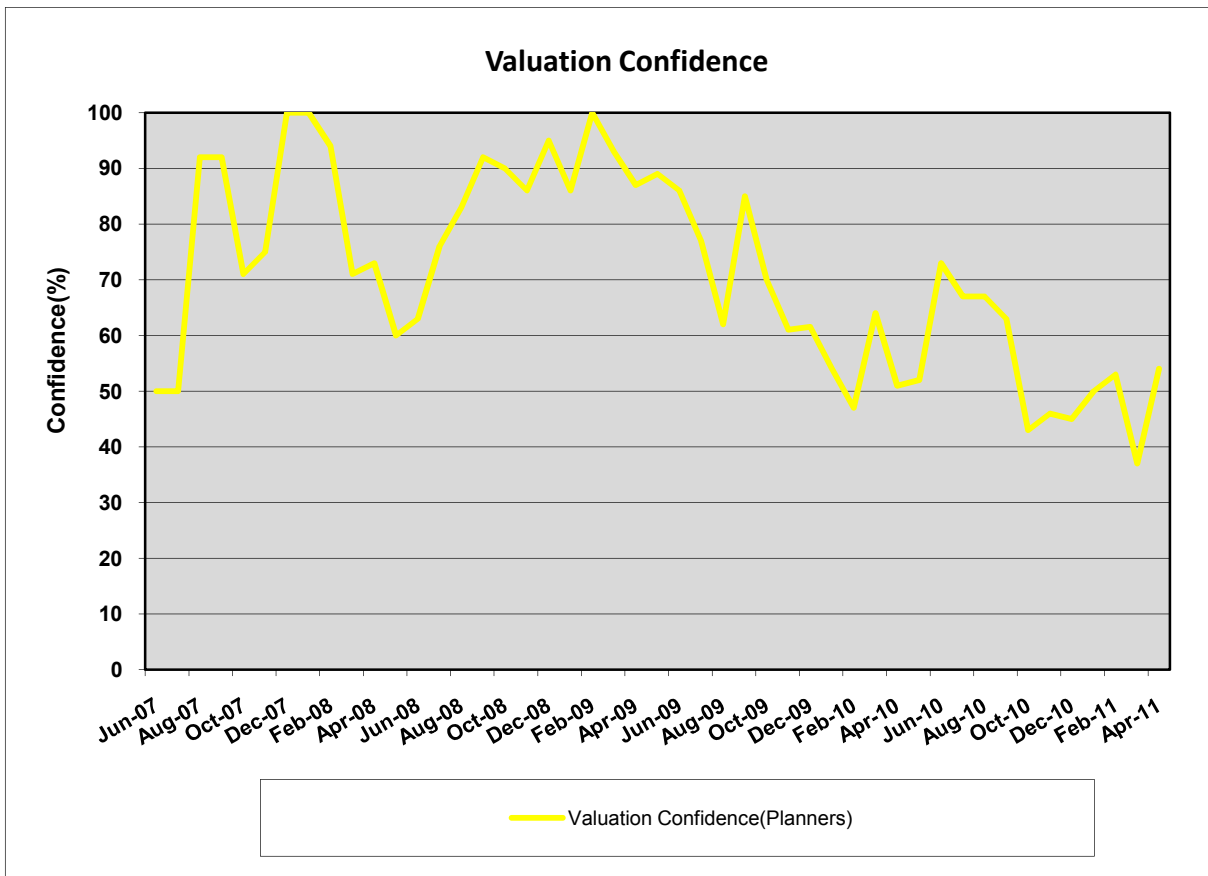
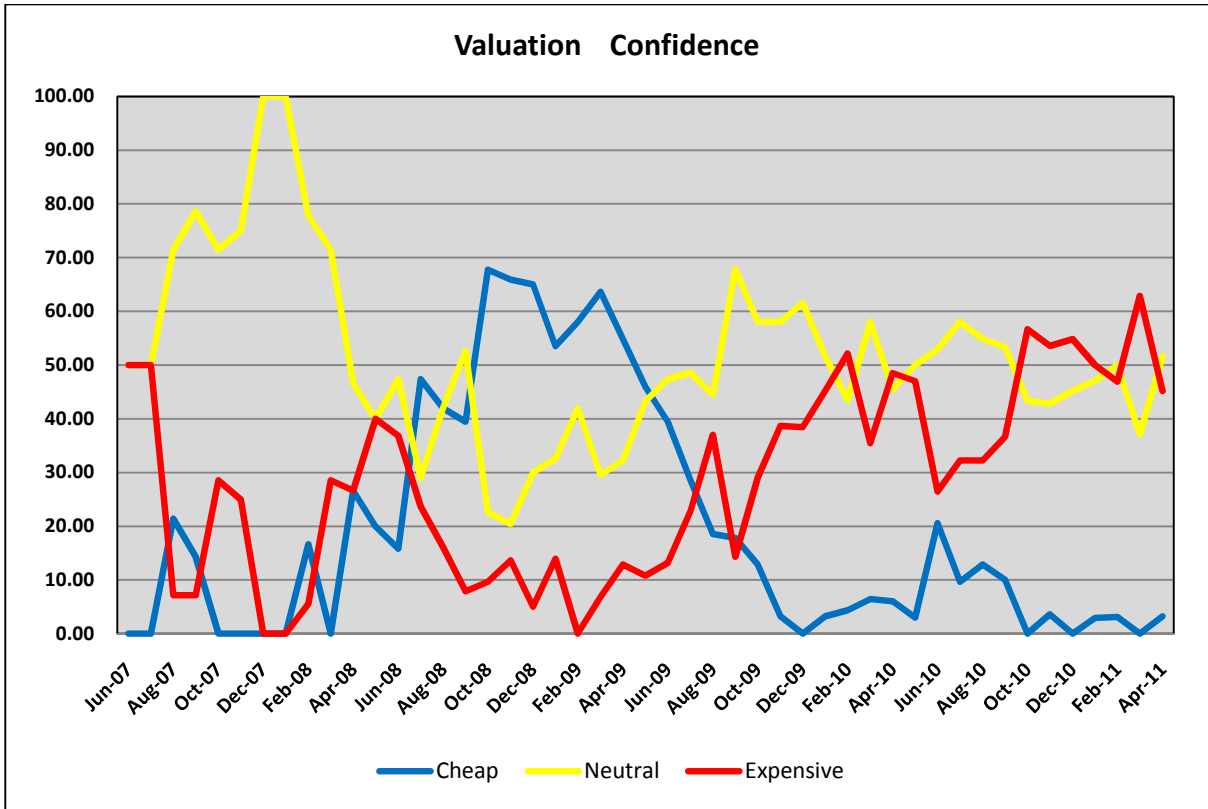
She notes that a key insight is to guard against being unduly influenced by noise from headlines while making long-term investment decisions. The average investor may be tempted to focus narrowly (myopically) on market volatility when considering investment risk.

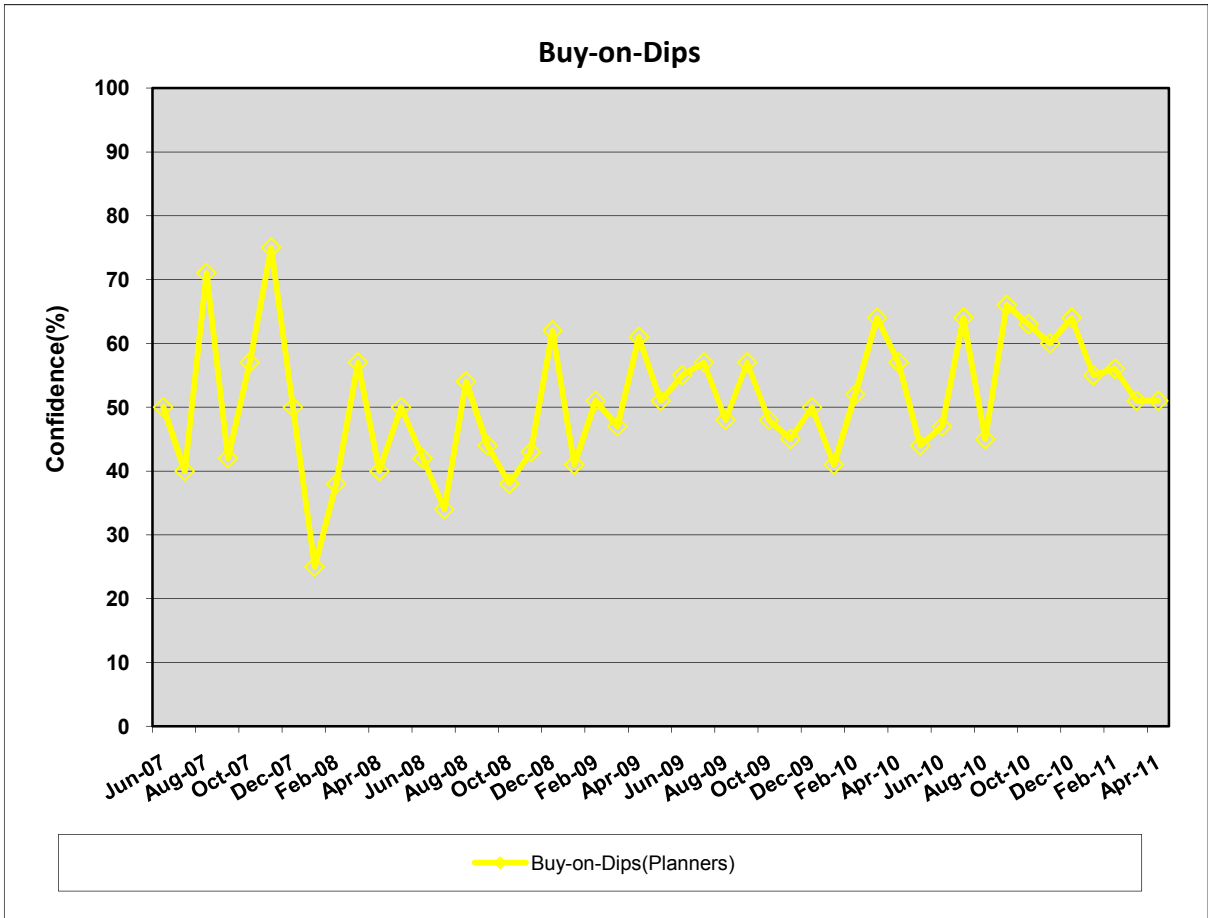
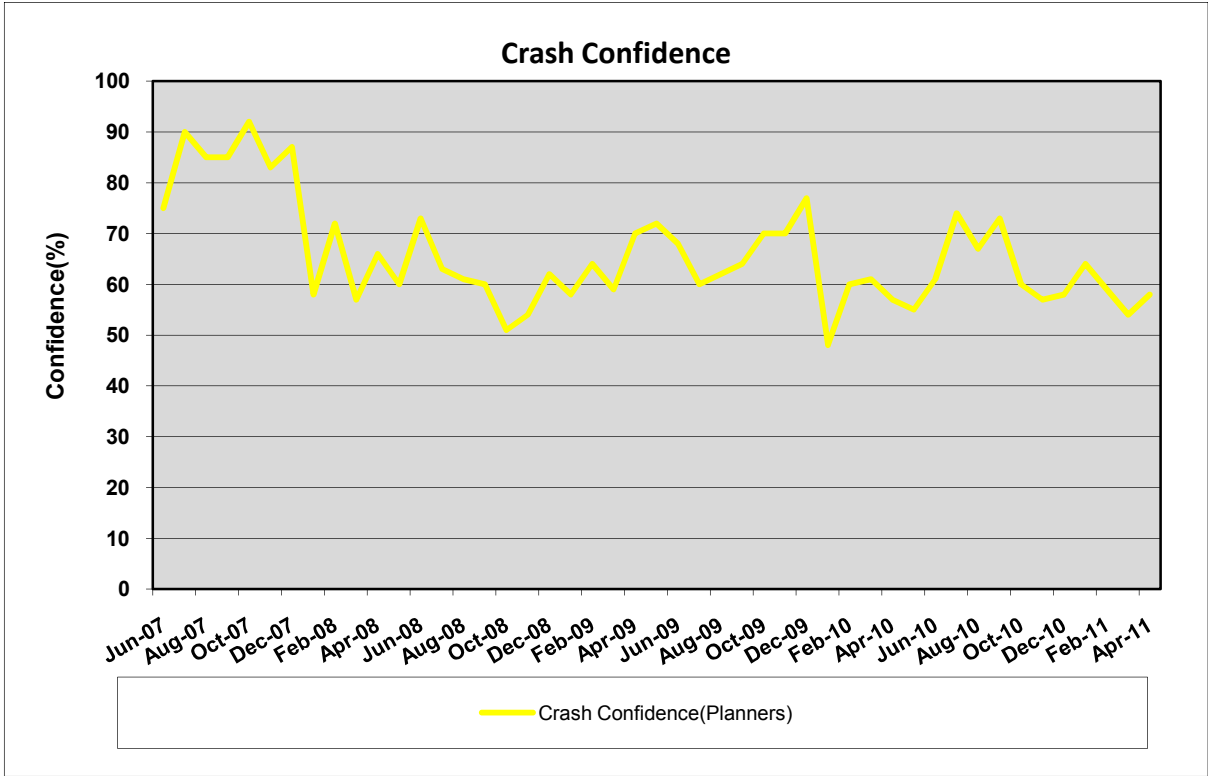
Furthermore, the results from the index suggest that market expectations may be limited. Investors should thus not be impatient to enter the equity market.

“In the near future, the best investment strategy may well be one of phasing investments into equity portfolios. This rational investment approach will ensure one does not miss the lows in the volatile market and it reduces the impact of high prices,” says Theo Vorster, chairman of the Institute of Behavioral Finance.

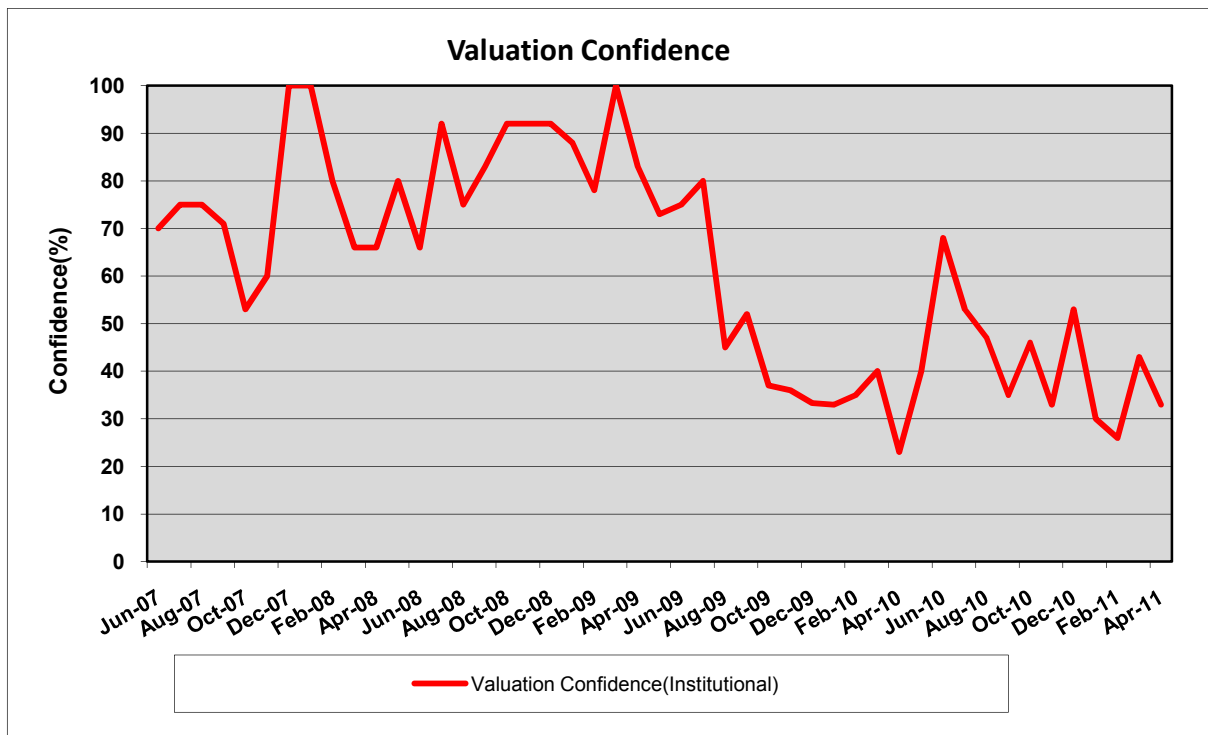
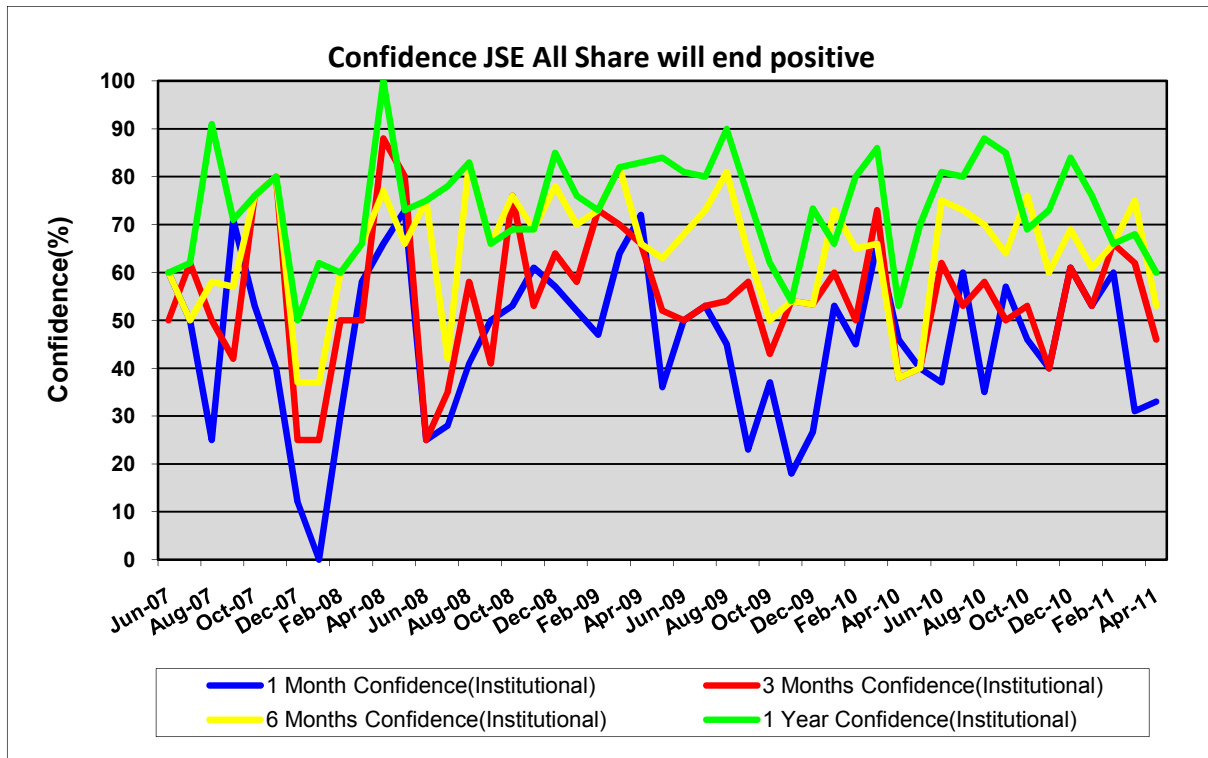
Financial Planners

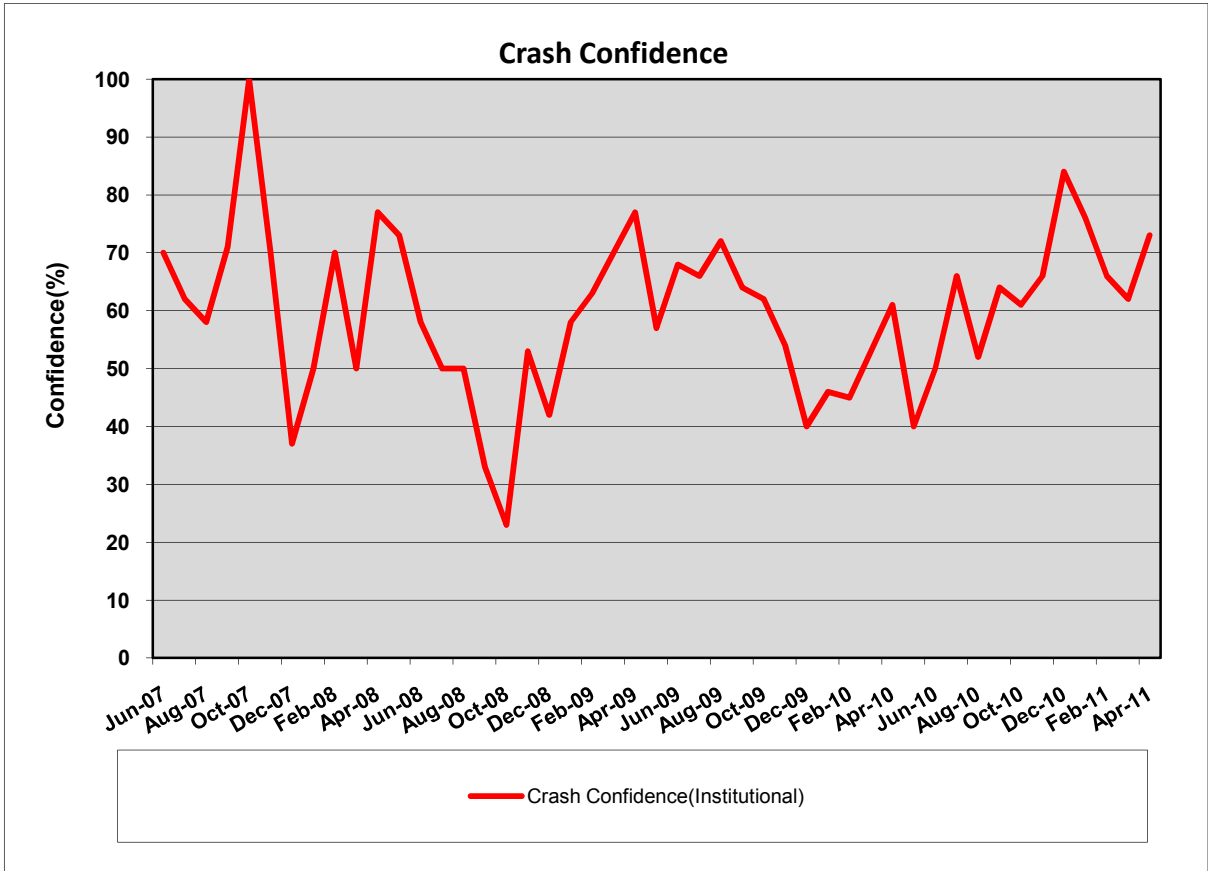
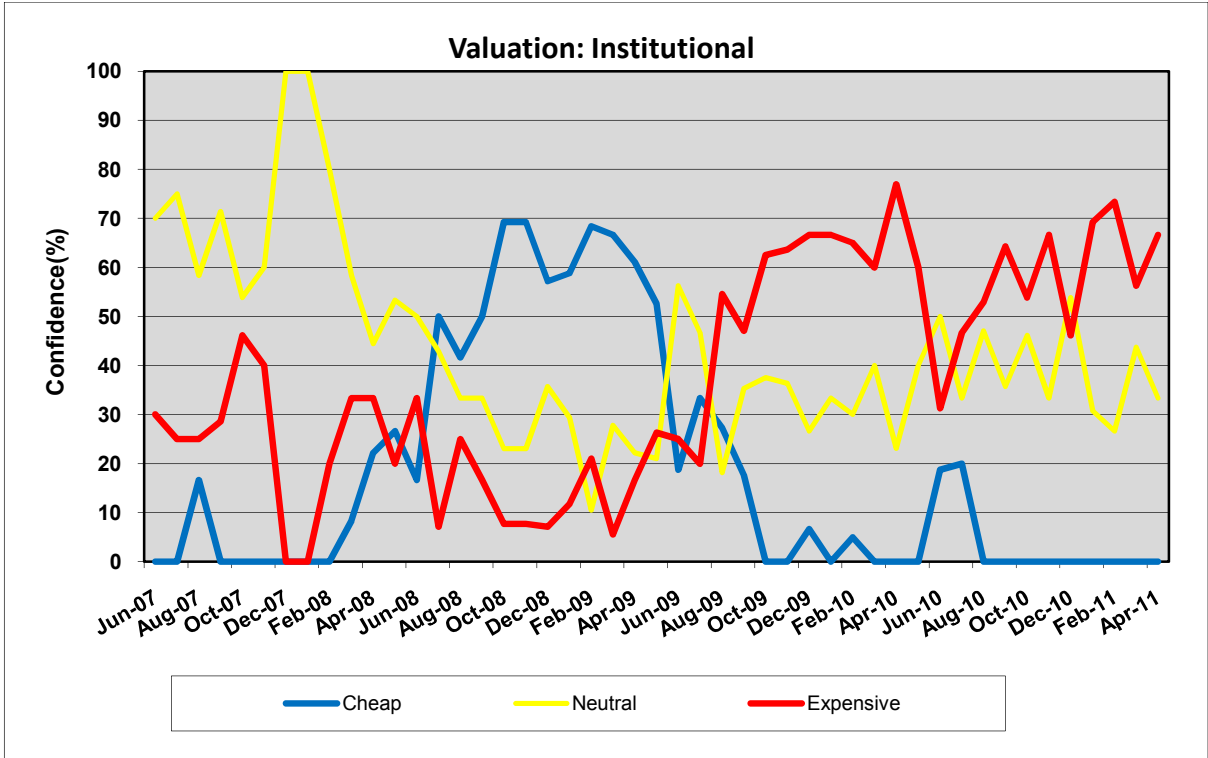


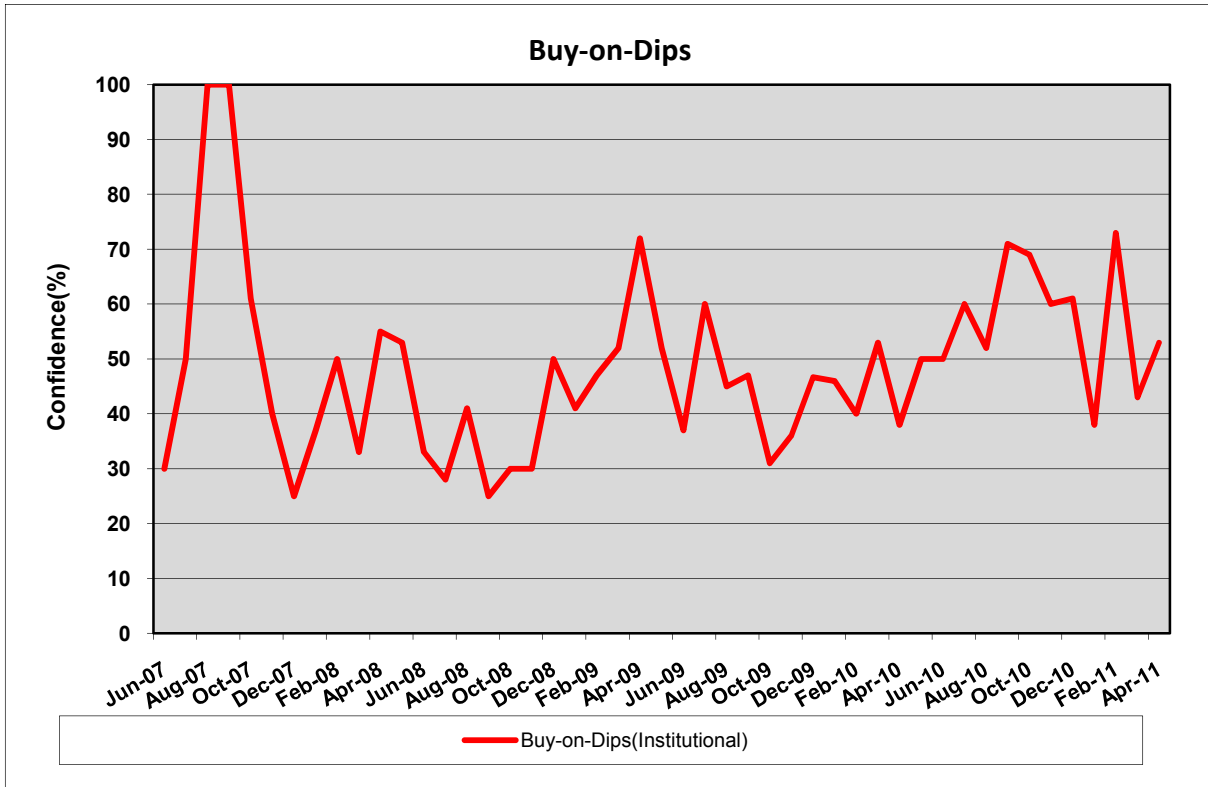




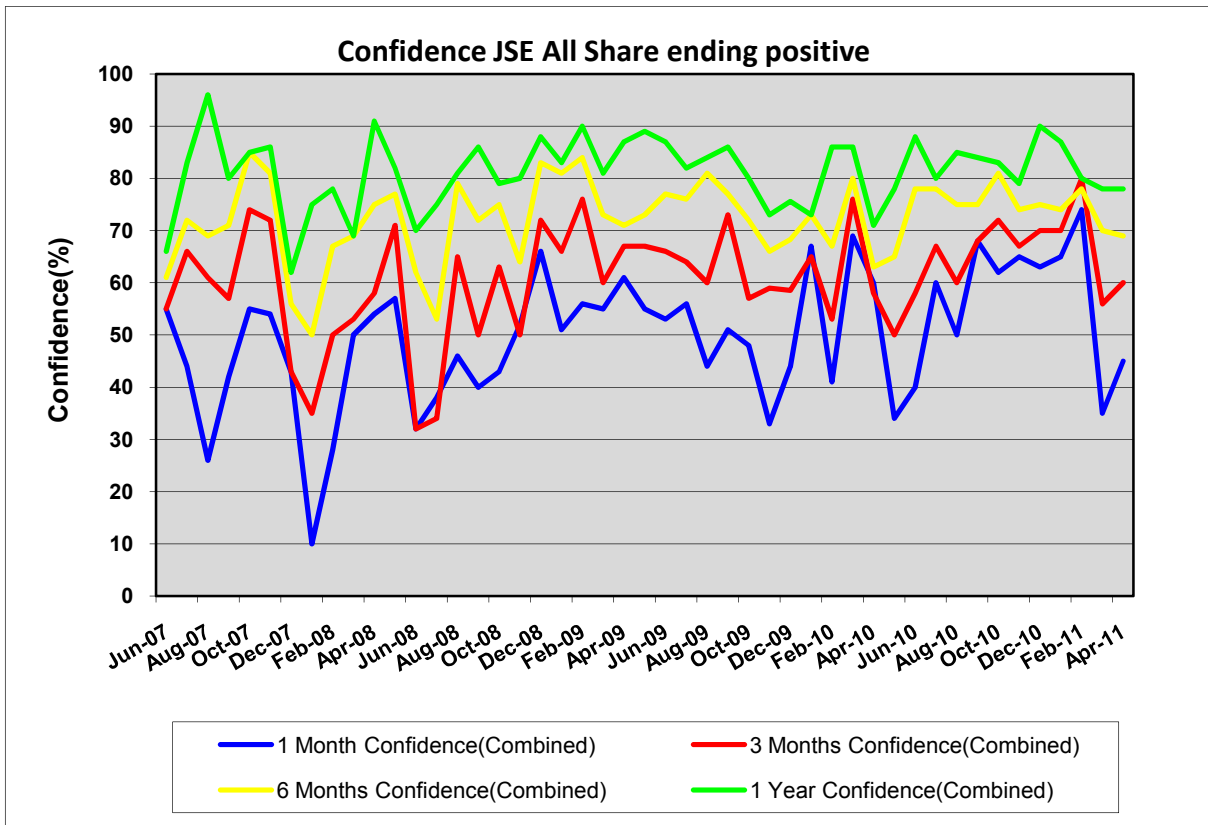
Institutional Investors

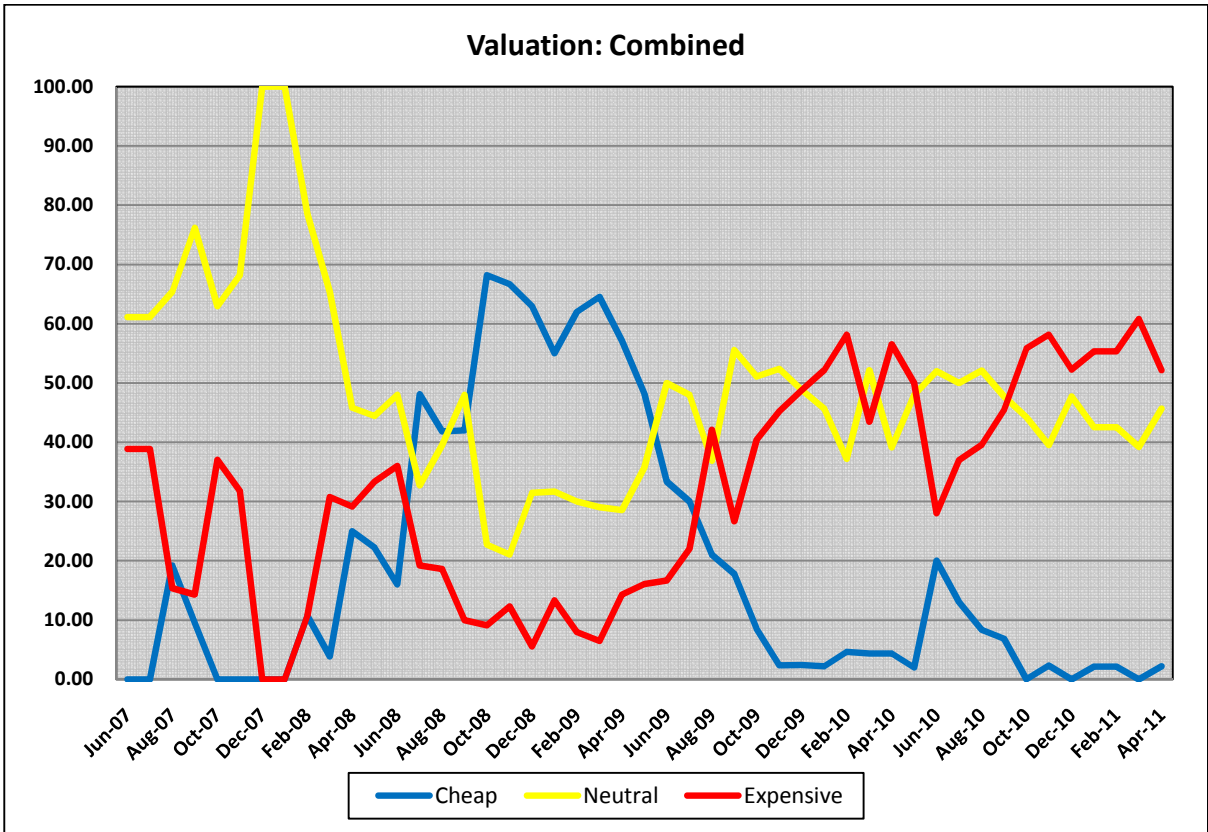
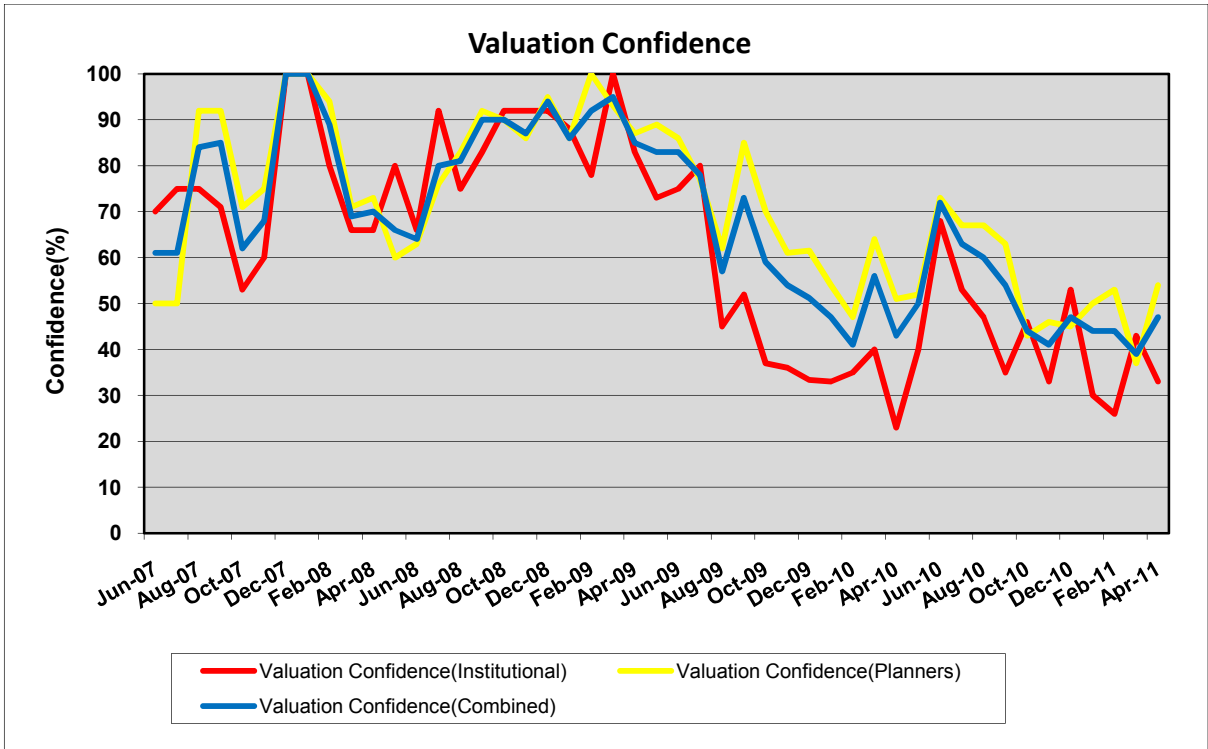


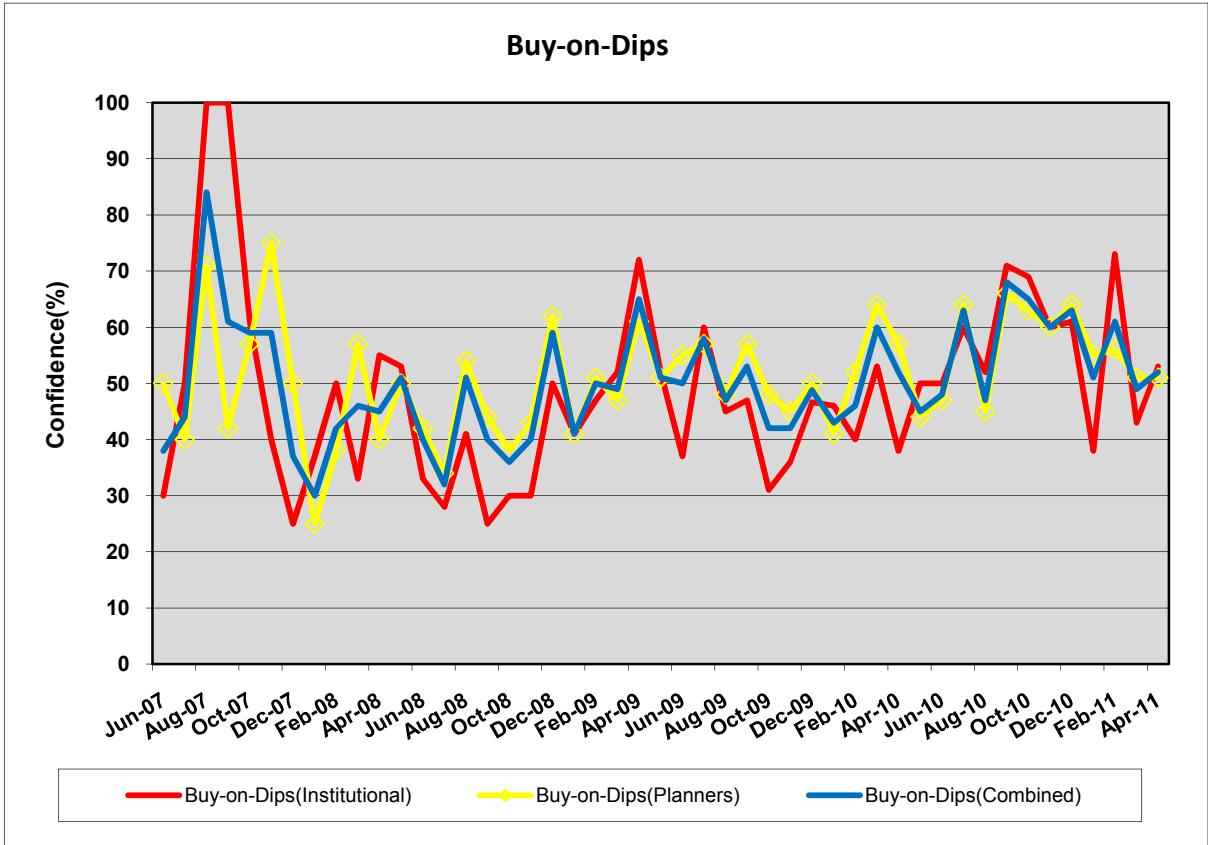
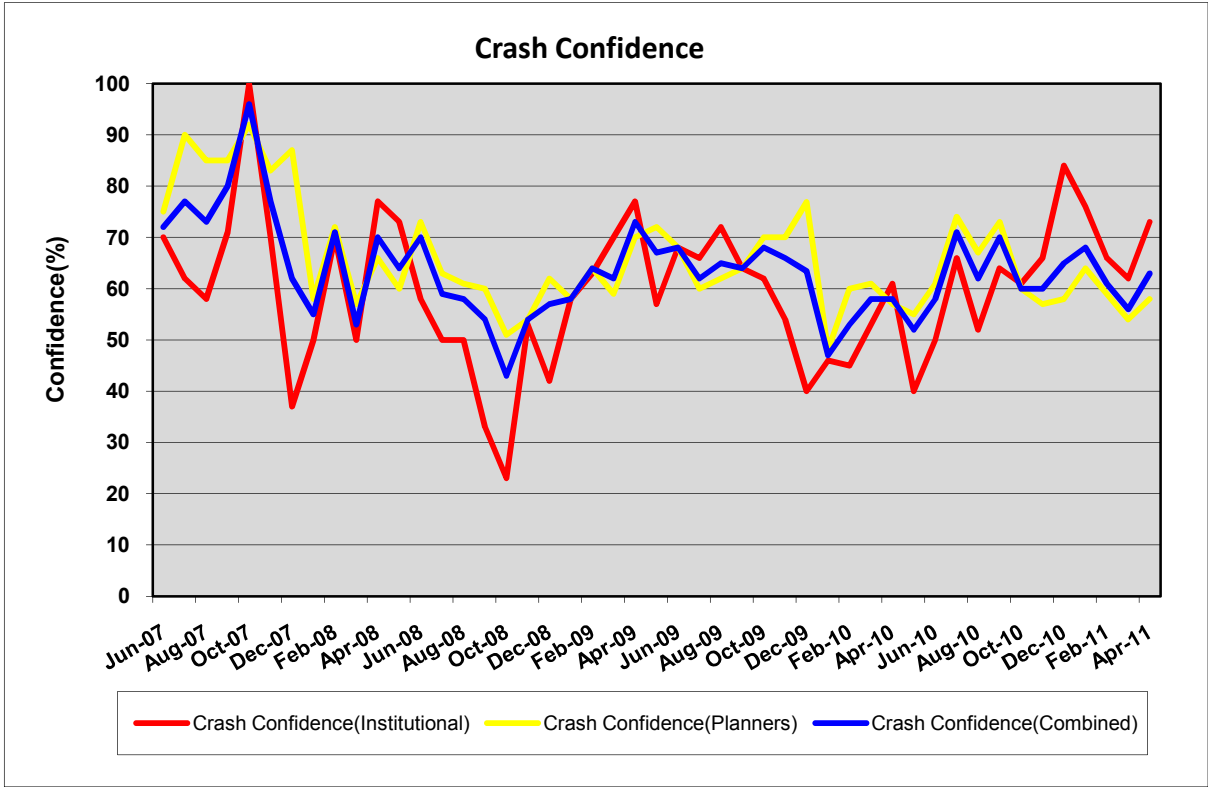


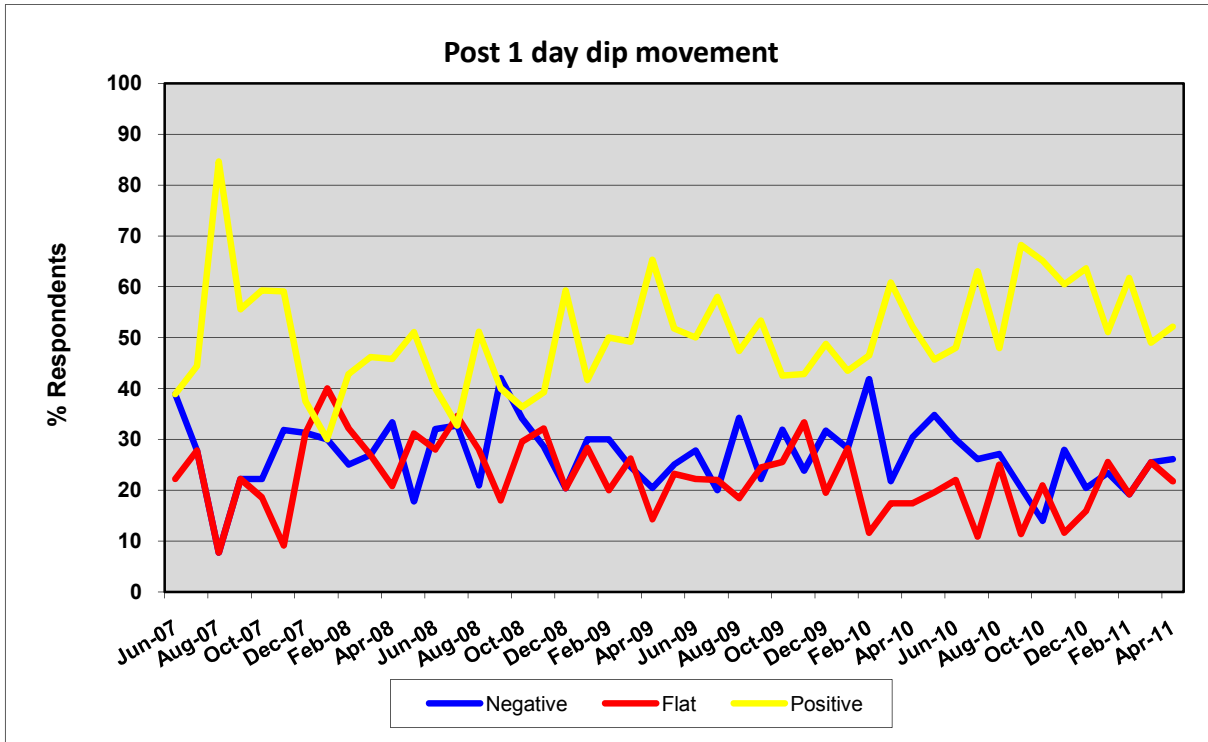


Combined Index

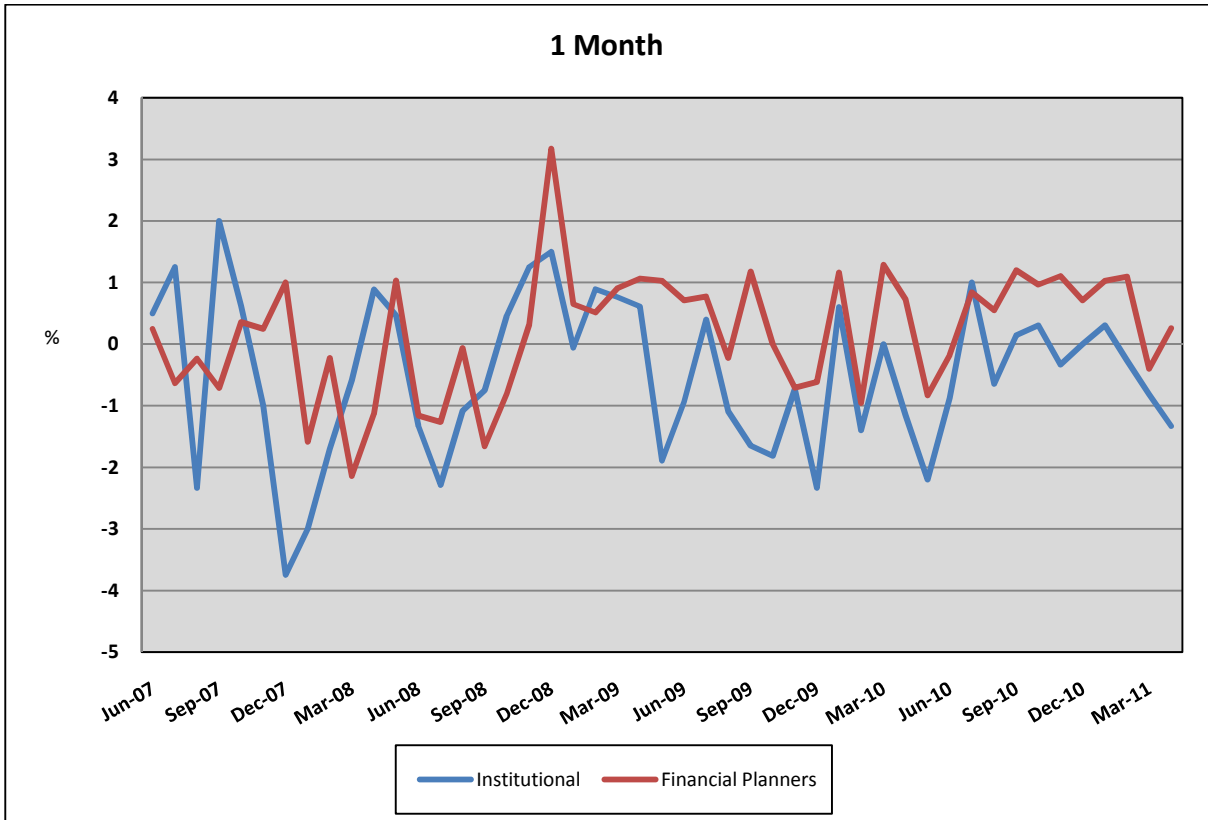


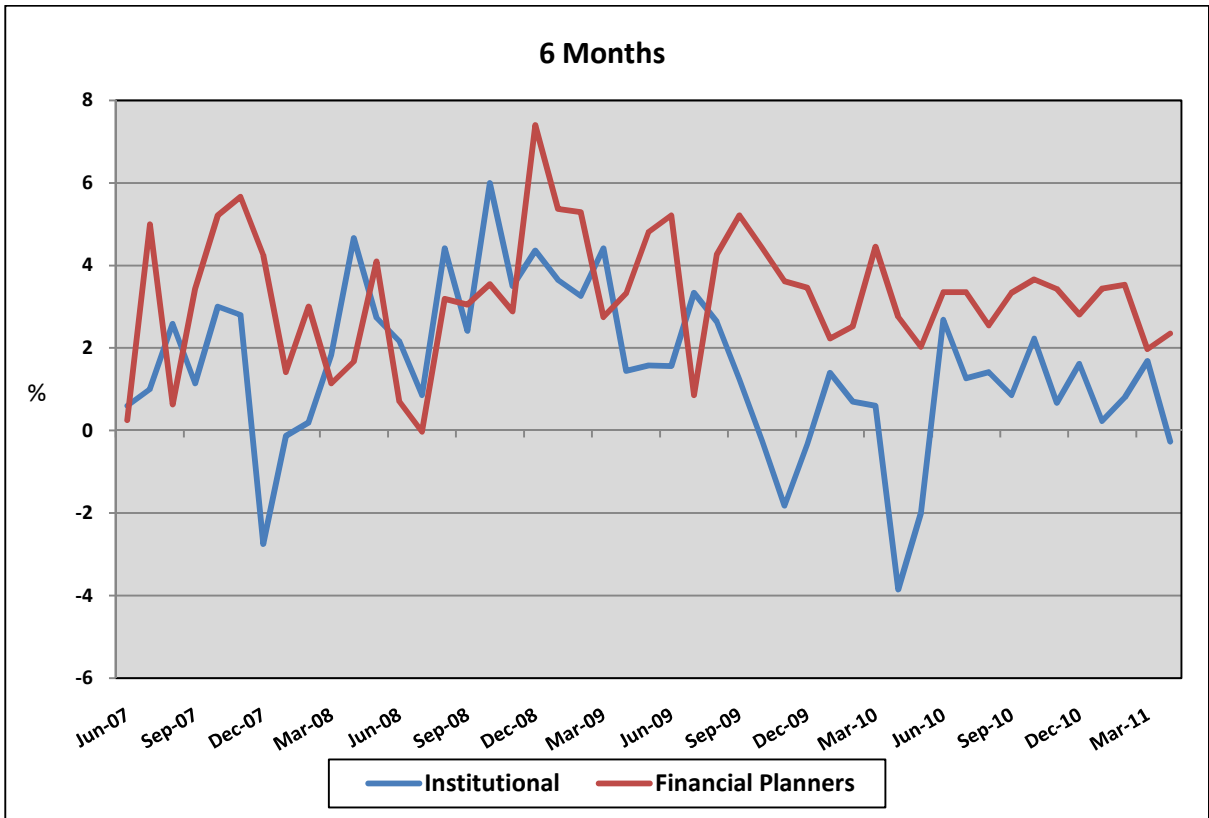
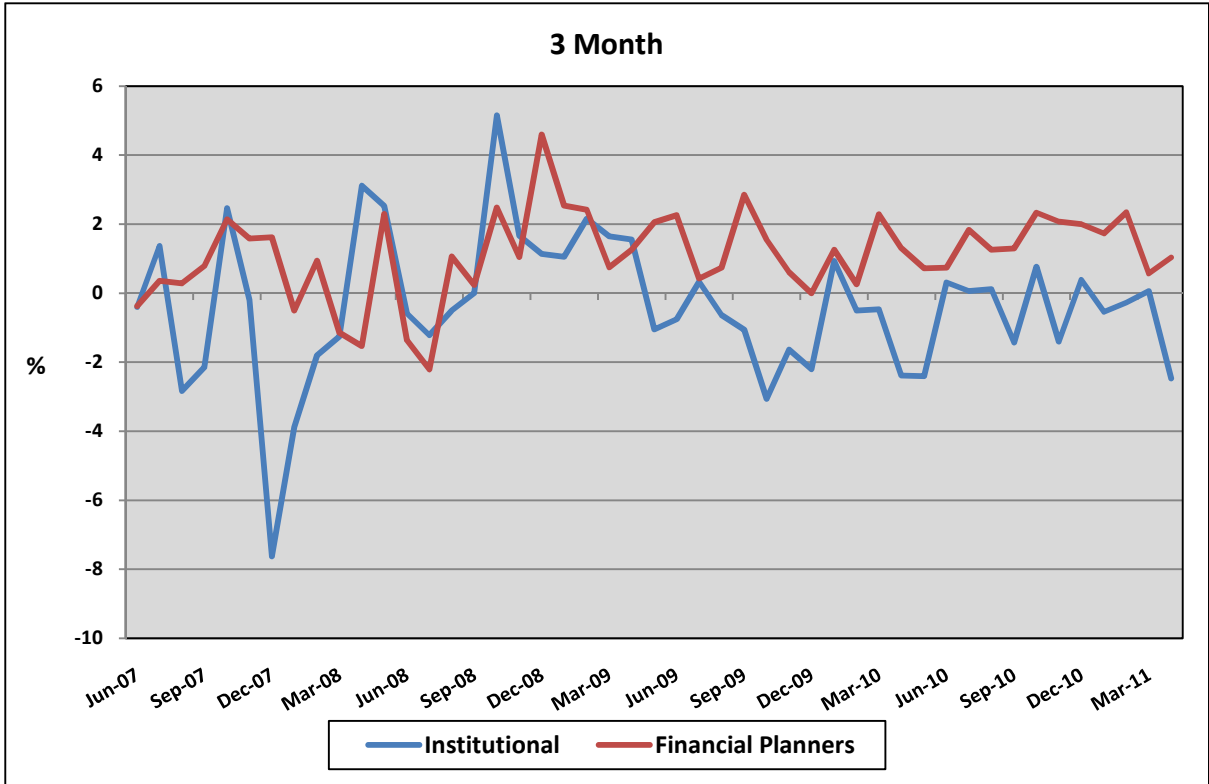


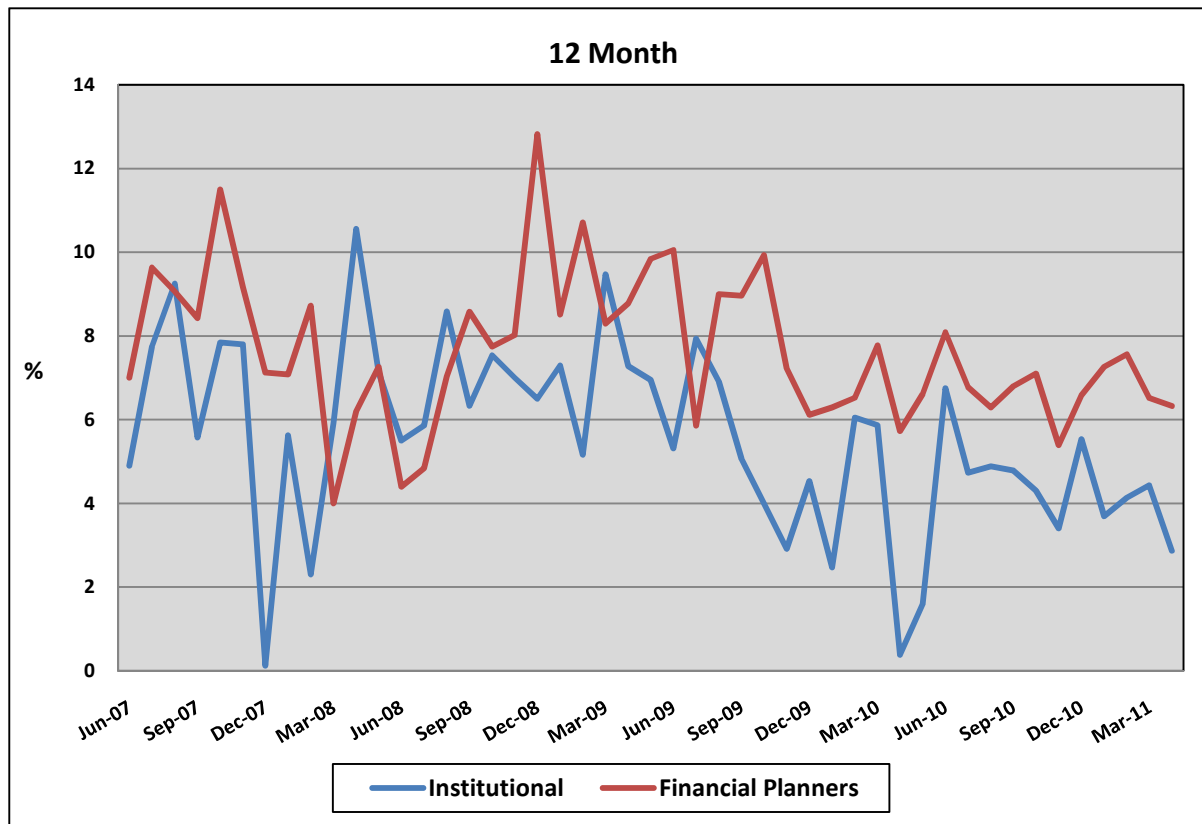




Average expected return







Survey Method

Confidence in the share market is much harder to pin down than consumer confidence, since the judgments people make about the share market are among the most involved of any that they must make. People interested in the stock market often tend to view themselves as playing a game against other share market investors, trying to guess when shares will do well before others do, so that they can profit from this knowledge. Many people who follow the share market watch the numbers every day, and many popular magazines, television, and radio shows follow the share market closely. Thus, there is likely to be more complexity to people’s views about the share market than there is about their decisions whether to save more now or whether to buy a new sofa, which consumer confidence indexes emphasize.

It should also be recognized that investor confidence is only one of many forces on the market. Share prices are of course determined by supply and demand, and there are numerous factors that affect these, fundamental factors, legal, tax-related, demographic, technological, international, as well as other psychological factors related to attention, regret, anchoring, and availability. Indices of share market confidence can therefore only play a supportive role in trying to understand market events.

The indices of investor confidence that we have derived do not all move in the same direction through time, or even approximately so. Forming a simple average of the different indices to produce one overall share market confidence index would thus be arbitrary. Instead, we report here different investor confidence indices. Each is measured in percent, as a percent of respondents who report holding a certain view.

Data

A questionnaire is sent the second Monday of every month to a sample of investment professionals. These include economists and portfolio managers from institutions as well as financial planners whose main focus is investments. Respondents need to answer 4 questions only by indicating in what direction and by what percentage they think the market will change. The questions are shown below as well as an indication of how the index is calculated.

1. One-Year Confidence Index

Question: How much of a change in percentage terms do you expect in the JSE All-share Index during the following periods: one month, the next three months, the next six months and the next year?

The index is calculated as the number of respondents giving a number **strictly greater than zero for the "In 1 Year"**. The index therefore reflects the percentage of the sample that expects the JSE All-Share Index to end positive over the next X months.

2. Buy-on-Dips Confidence Index

Question: If the All-Share were to drop by 3% tomorrow, what would you think the All-Share would do the day after tomorrow?

Three options are available namely Increase (%), Decrease (%) or stay the same. The Buy-on Dips Index is the number of respondents that **choose an Increase** as a percentage of the total number of respondents. The index therefore shows the percentage of the respondents expecting a rebound the next day should the market drop by 3% in one day.

3. Crash Confidence Index

Question: What do you think is the possibility of a catastrophic market crash (like 28 October 1928) occurring during the next six months?

An answer of between 0% and 100% may be given, with 0% meaning it will not happen and 100% it is sure to happen. The index is the percentage of respondents who think that the **probability is less than 10%**. Therefore shows the percentage of respondents who attach little probability to a stock market crash in the next 6 months

4. Valuation Confidence Index

Question: Stock prices in South Africa, when compared with measures of true fundamental value, are too low, too high, or just right?

The valuation index is the number of respondents who **choose too low or just right** as a percentage of the total number of respondents. It therefore reflects the number of respondents who think that the market is not too high.