

Uncertainty favours the long-term investor

Investing is never easy and it is never certain. It is the act of forgoing today for a better tomorrow. And tomorrow is an unknown. Confidence dropped dramatically in 2008, for investors and industries across the globe. But it is also giving rise to some seemingly attractive investment opportunities at good prices.

Charles de Kock, Chief Strategist at Coronation

Fund Managers says that the world is locked in a tug of war between an extremely sharp slowdown in economic activity on the one hand, and unprecedented responses from fiscal and monetary authorities around the world on the other.

"The macro-economic outcome is extremely difficult to predict with any degree of conviction; markets are incredibly fearful of

what lies ahead."

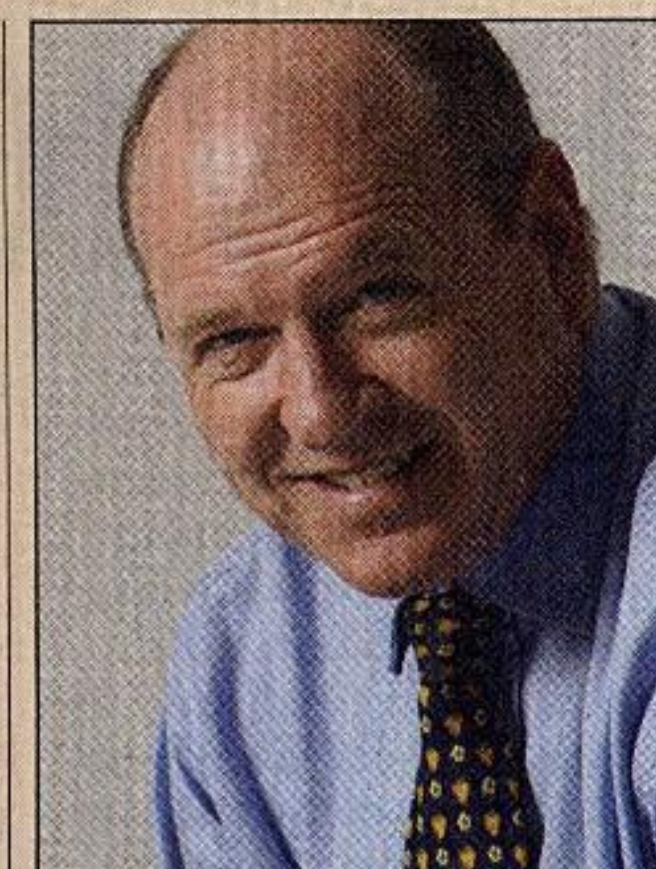
US woes are well known. De Kock says that what started as a financial crisis in the developed world, rapidly spread to the real economy, the emerging world and even to bullet-proof China. "The sharp drop in commodity prices illustrates just how quickly the world economy has come to a halt, with its upcycle of the past six years having been obliterated within a period

of two quarters! Also the shipping industry, a key beneficiary of the commodity boom has all but dried up, with the implosion of transport costs as shown in the Baltic Dry Index."

The level of fear among investors is illustrated in the 3-month US Treasury Bills, says De Kock. "At the end of 2008, investors were happy to give their money to the US Government for a period of 3 months at a zero per-

cent return; a situation only comparable to a depression or world war. While government bonds quickly became a huge favourite, corporate credit was dismissed, and good, solid BBB rated corporate credit spreads moved back to levels last seen in the 1930s."

"While the macro economic outlook remains poor, and newsflow is unlikely to improve in the near term, we know that the US government will stop at nothing to get the engine of the world's biggest economy



Charles de Kock: Chief Strategist, Coronation Fund Managers

running again. While this might well ultimately be inflationary, this does not seem to be of primary focus as the global liquidity response and synchronized interest rate cuts first need to evolve into spending."

De Kock says that we do not know how or when this tug of war will end, but we do know that many shares have been sold down to levels which offer the long-term investor the opportunity to acquire prime businesses at compelling prices.

He names shares such as Microsoft, Pfizer and Nokia, as being excellent companies with very healthy balance sheets trading at single digit multiples and attractive dividend yields. These opportunities, he says, have been created by the investor's fear of risk and flight to safety. "In emerging markets there are even more compelling buys."

"Locally, we believe that there is some good news coming. Inflation is set to fall rapidly driven mainly by tumbling oil and maize prices; the local inflation number should be inside the target range by mid year. The Reserve Bank has already started the interest rate cutting cycle and we expect monetary policy will continue easing as inflation softens and news on the real economy continues to show a sharp slowdown in economic activity. It is clear that the authorities in South Africa will do as much as they can to boost economic growth. Analysis shows that equities outperform the other asset classes during periods of declining interest rates. We do not think it will be different this time."

Using Coronation's valuation criteria, de Kock says they are finding many attractive businesses in the local market, especially in the small cap space. "Among the larger cap shares MTN catches the eye."

"Investors normally expect to pay a premium for a business of this quality; now it can be acquired at a rating similar to that of the average South African business."

"In the words of Warren Buffet: 'Before reaching for that crutch, face up to two very unpleasant facts: the future is never clear and you pay a very high price in the stock market for a cheery consensus. Uncertainty is the friend of the buyer of long-term values'".