



Investment review: 2008

Prepared by Liberty Group Advisory Services

2008 had market participants and commentators heading for record books to get a sense of where the year's events slotted into recent history.

The JSE lost 23.2%; the listed property index lost 4.5%, while bonds and cash were up 17.0% and 12.4% respectively. At the beginning of last year, the place to be was in bonds and cash, yet what the market yielded at the end of 2007 was an entirely different story.

In 2007, listed property was the leader of the pack returning 26.5%; with equities up 19.2%, cash 10.1% and bonds 4.2%. If you had favoured the lower risk asset classes in 2007, you would have sacrificed a fairly large potential return - a bitter pill for any investor to swallow!

The table below ranks the performance of each asset class from 1998 to 2008.

KEY:

GE	Global equities
ALSI	FTSE/JSE All Share index
PROP	Property sector average
BOND	Bond sector average
MM	Money market
BP	Balanced portfolio
CPI	Inflation (consumer price index)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1	GE 50.3	ALSI 70.82	PROP 27.6	ALSI 32.61	PROP 24.5	PROP 41.1	PROP 41.3	PROP 50	ALSI 41.2	PROP 26.5	BOND 17
2	MM 17.8	PROP 56	BOND 19.3	GE 32.4	BOND 16	BOND 18.1	BP 27.8	ALSI 47.3	GE 33.2	ALSI 19.2	MM 12.4
3	CPI 7.1	BP 35.9	MM 10.99	BOND 17.8	MM 11.5	BP 16.4	ALSI 25.4	BP 26.9	PROP 28.4	BP 12.2	CPI + / -11.3
4	BP 5.2	GE 31.3	GE 7.3	BP 17.7	CPI 9.3	ALSI 16.1	BOND 15.2	GE 23.4	BP 25.7	MM 10.1	PROP -4.5
5	BOND 4.8	BOND 29.4	CPI 7.7	MM 10.6	BP 1.9	MM 12.8	MM 8.2	BOND 10.8	MM 7.9	GE 7	BP -10.5
6	PROP 4	MM 15.73	BP 2.6	PROP 7.9	ALSI -8.3	CPI 6.8	CPI 4.3	MM 7.5	BOND 5.5	CPI 6.5	GE -18.1
7	ALSI -5.9	CPI 6.9	ALSI 0.4	CPI 6.6	GE -42.4	GE 3.1	GE -1.9	CPI 3.9	CPI 4.6	BOND 4.2	ALSI -23.2

Source: I-Net and Deutsche Securities

Invest with a balanced portfolio over the long term

This illustrates the value of investing within a balanced portfolio for the long term. You will never shoot the lights out and have the best performance across the market but you can rest assured that you will also never be at the bottom of the pack!

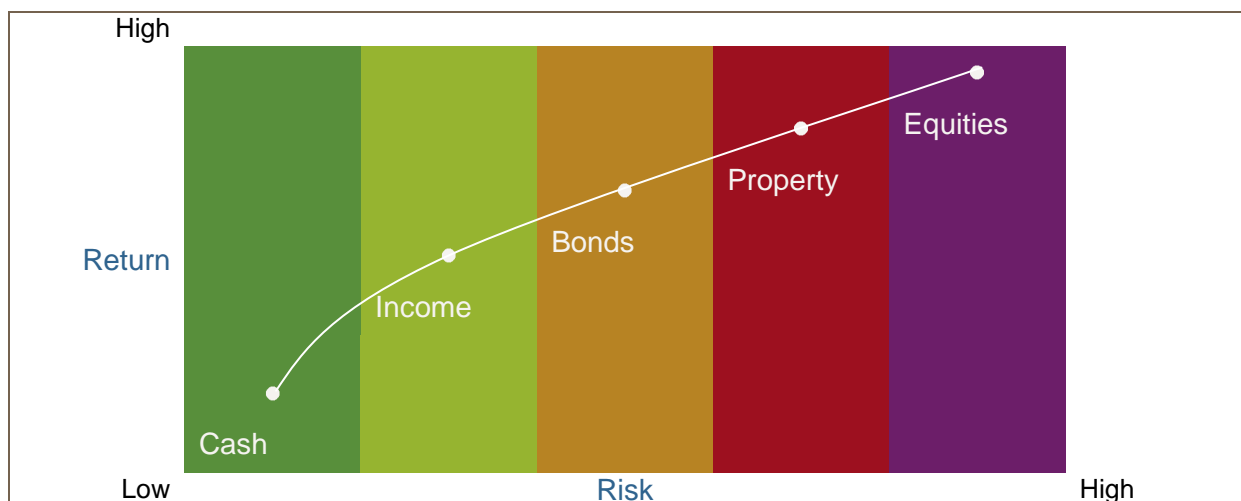
Maintain an exposure to all four asset classes

It is crucial to maintain an exposure to all four asset classes, despite how uncertain the outlook may be. You can limit expected downsides by short-term tactical asset allocation movements but it is risky to move out of an asset class entirely.

For example, equity and bond markets are forward-looking mechanisms, often pricing in future events. During the Great Depression the Dow Jones Index hit its low on 8 July 1932 and although the economy deteriorated further until March 1933 the market was already up 30% by that time!

Balance risk and reward

There is always a trade-off between risk and return, as seen in the diagram below. Staying with low-risk assets will affect future growth potential, as the lower risk assets are correlated to lower returns in the long run.



Take advantage of equity markets

As economies are stabilising and improving, it may be beneficial to increase exposure to the more risky asset classes to take advantage of rising equity markets. Money markets locally are set to continue declining this year as the interest rate is cut further; hence an 'overweight position' (too much) in cash should be actively managed to recover lost capital and generate the best real return over the long term.

It is important to bear in mind that although you may increase your exposure to more risky assets, it is essential to still have exposure to all asset classes in a balanced portfolio and to make sure you have sufficient liquid assets to satisfy your income needs.

For more information on Liberty's wide range of investment opportunities and how you can diversify your portfolio, speak to your financial adviser or call Liberty Life on 0860 456 789.