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## GENERAL NEWS

### HOW MUCH SHOULD YOU INVEST OVERSEAS?

The old cliché is absolutely right; the only constant in the investment world is change. As we predicted in our January newsletter, 2008 is turning out to be a year of change. In an attempt to ensure that our core investment recommendations are still relevant, we have been reviewing our position on offshore investments. We have traditionally recommended that you invest approximately 15% of your assets overseas. However recent events such as the power cuts, Jacob Zuma's election as head of the ANC and continued high crime rates have led us to review our position.

The past few months have seen a substantial fall in the rand and all stock markets (including SA) have been extremely volatile. The natural knee-jerk reaction is for us to amend our view and send more money overseas and invest it in a foreign money market fund or bank account until things settle down. Unfortunately this type of knee-jerk reaction will not always lead to long term investment success. In times of increased uncertainty it is important to have a framework to help you make long term investment decisions. This type of framework allows you to limit the impact of emotions on your investment decisions.

In order to change a long term investment view we need to understand what has changed in the last few months and determine whether these changes are permanent. If they are permanent, will they impact on our investments over the longer term? The failure of Government to plan around Eskom has raised concerns about the ability of Government to manage the infrastructure of our economy in the long term. Spiralling inflation and the resultant high interest rates will further dampen our economic growth rates over the short term. Finally, the commodity boom which has helped our resources sector perform so

brilliantly will come to an end and this will be negative for our stock market. This is especially true if the mines are going to be more negatively affected by power shortages than we have been led to believe.

On a positive note, our economy has continued to grow despite the above mentioned factors and many of our financial and industrial companies continue to increase profits despite some severe headwinds. If we had asked a bunch of analysts to predict a worst case scenario for South Africa five years ago, they would not have been close to predicting an oil price of \$100 a barrel, inflation of 9%, Jacob Zuma as President and Mugabe trying to steal another election. Given all the negative news, we are becoming increasingly impressed with the resilience of our economy. It seems that we are structurally in a position to weather the heavy storms we are experiencing and when the storms subside somewhat, we will continue to prosper.

We have always recommended that our clients who are considering emigration at some point in the future should increase their total offshore investment exposure to 50%. This position remains unchanged but we have amended our long term offshore allocation for clients who plan to remain in SA. We are increasing our recommended offshore allocation from 15% to 30%. This is not a short term recommendation that will be adjusted if the rand strengthens again. This is a long term recommendation for the next 10 to 15 years.

#### **How do you invest the money overseas?**

You can use the R2m allowance to invest directly overseas. We use a range of low risk investment portfolios in USD, GBP and EUR that are designed for emerging market residents looking for a safe haven. Alternatively, you can make use of the range of rand denominated international investments. We have previously recommended the Itrix Euro and continue to do so. Please note this investment has changed name to db-xtrackers and you now have a wider range of investments to choose from. We are happy to provide advice on your options.

## **THE POTENTIAL HAZARDS OF ELECTRICAL GENERATORS**

The recent power failures (euphemistically called load shedding) have resulted in many homeowners rushing out to buy generators. Whilst they are becoming essential for some homeowners it is important to understand the potential hazards of generators.

#### **Electrical Hazards**

- Generators pose a risk of electrocution, especially if they are operated in wet conditions.
- If you have not had your generator wired into your premises by a qualified electrician, you should only connect appliances to the generator using heavy-duty extension cords that are specifically designed for outdoor use. **(Please note: it is not recommend that you use the generator in this way)**

- **NEVER** try to power the house wiring by plugging the generator into a wall outlet, a practice known as “backfeeding.” This is extremely dangerous and presents a possible electrocution risk to external workers and neighbours served by the same transformer. It also bypasses some of the built-in household circuit protection devices.
- A licensed electrician or registered electrical contractor should always carry out the installation.

#### **Fire Hazards**

- **Never** store fuel for your generator in the home. Petrol, Diesel, propane and other flammable liquids should be stored outside of living areas in properly-labelled, non-glass or breakable safety-glass containers. Do not store them near any fuel-burning or heating appliance.
- Before refuelling the generator, turn it off and let it cool down. Fuel spilled on hot engine parts could ignite.
- Never use a naked flame, matches or a candle near the generator or fuel tanks. Try to make sure you have a torch available for use when going to turn the generator on.
- It is advisable to keep a small fire extinguisher in close proximity to the generator. A 4.5 Kg Dry chemical Powder (DCP) or 2 Kg Carbon Dioxide (CO2) fire extinguisher is recommended.

#### **WEALTH MANAGEMENT CLIENTS**

We are very happy with the performance of our local investment solutions over the last few months. This is the first real correction that we have experienced since we started Galileo Capital and we are very happy that all the research we did in the development of the investment solutions has paid off for our clients. When the stock markets fell dramatically, the “shock absorbers” in the investment solutions limited the falls in our client’s investments. The fact that we had the maximum allowed exposure to foreign investments meant that our clients also benefited from the recent fall in the rand. We are expecting markets to continue with their volatility over the next 6-9 months but we are comfortable that the investments are performing as expected in very difficult conditions. This is considered to be a foundation year where investments will not perform well but the foundation for growth over the next few years will be laid.

## **GALILEO CAPITAL NEWS**

### **REFER A FRIEND TO US AND WIN A HOLIDAY**

#### **Competition details**

- All you have to do is refer someone to us for a completed quote for short-term insurance. Our telephone number is 011 502 8800; please ask for our short term insurance division. If we are able to provide the person with a proper quote your name will be added to the draw.
- You can increase your chances by increasing the number of people that you refer to us. You will have one entry for every new person/company that receives a quote from us. Please ask the referred person to let us know who referred them.

- Every person or company that becomes a new short-term insurance client up to 30 April will also be added to the draw.

The competition runs from 04 February 2008 to 30 April 2008 and we will hold the draw on Monday 5 May. Please note: the usual terms for such a competition apply e.g. no staff from Galileo Capital or Simply Bookings or their family members can enter and the judges' decision is final.