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## 2008 – A YEAR OF CHANGE

It is a well-worn cliché to discuss change at the start of a new year but sometimes clichés have value. 2008 will be a year of change for the country. The effects of these changes may not materialise this year but they will impact our lives in years to come. The “jump to the left” at the ANC will undoubtedly change the way our country is managed. There is the potential for increased focus on social issues such as unemployment, crime, HIV and education. However there is also the potential that the management of the economy could become more “anti-business”.

On the global front, economies are slowing and the sub-prime crisis continues to haunt financial institutions. There are increased fears of recession in the developed economies, particularly America. China and India will probably be the main drivers of global economic growth this year with forecasted GDP growth of 9% - 11%. We expect this year to be difficult on the local markets but the prospect of lower interest rates in the second half of the year will provide a much needed boost to the economy and the markets.

### **Is it all bad news?**

On a positive note we had a change of leadership in the ruling party without any significant public unrest or accusations of vote rigging, this is a victory for democracy. There is a very real prospect that commodity prices will remain high due to demand from China and India which will be very positive, the high oil price is a concern but it will not increase our inflation rate further unless it rises from current levels. It is significant that emerging markets now represent approximately 30% of global GDP. This is relevant because it means that the rest of the world is no longer as economically dependent on the US as it has been over the last century although the US is still the largest driver of GDP.

The ramifications of this shift are already being felt in the global political arena with countries such as Russia and China exerting greater influence than before.

## **RECOMMENDATIONS FOR THE YEAR**

There is no doubt that increased volatility will make many investors nervous. Broadly speaking, we would not recommend that you reduce your investments unless you are over-invested in a particular asset class. For investors with cash, the year may represent a good buying opportunity during the inevitable dips. We feel the rand is going to weaken this year so you should consider investing offshore if you have not done so already.

### **Wealth Management Clients**

After a few great years of stock market growth this is likely to be a difficult year for investors. We expect our portfolios to be volatile with some negative months through the year. It is important to remain invested over this period as market volatility is a normal part of investing. To give the recent stock market volatility some context, by 21 January, we were almost 20% down since Oct 2007. However we are at the same levels as at March 2007 and for 12 months the stock market is still 1.13% up. This is relevant because it provides the background to the recent market falls, we have only “lost” 10 months of growth, which is a very normal market movement.

Over the history of the JSE, we have seen falls of 30% in a year but we have also seen the market recover those losses over the following 12 months. The important point is that one should remain invested during times of market volatility.

The managers of your underlying portfolios will use the volatility to make sound long-term investments but they cannot keep the portfolios from falling in market downturns. Our portfolios are well diversified and any downturns in the stock market will not be reflected by equivalent drops in your portfolios. That means the drops will be smaller than the market but we may still see falls. We expect the second half of the year to be significantly better than the first half. The current volatility has been predicted for some time so your portfolios are correctly positioned to weather the storm. In summary, this is a year of consolidation that will hopefully lay the foundation for sustained growth over the next few years.

### **Stock Broking Clients**

Last year we recommended Itrix Euro as our top stock pick. It returned 15% for the year and remains a good investment for 2008. We have two top picks for this year. For the conservative stock picker we recommend Remgro (REM). The unbundling of BAT should unlock value for investors and REM is a diversified investment company that will match the market’s performance even if the BAT unbundling does not take place this year. For the more aggressive equity investor we recommend Investec PLC (INP). Over the last 15 years Investec offered two great buying opportunities, the first was in the late 1980’s and the second was in 2003. In those periods the dividend yield of Investec was 6% or higher and at current price levels (c. R57) the dividend yield is almost at 6% again. It may take 1 to 3 years to unlock this value but we believe INP is a great buy at this stage.

# GALILEO CAPITAL NEWS

## REFER A FRIEND TO US AND WIN A HOLIDAY

We often get referrals from our clients who refer their friends and associates to us. This has been our best source of good new clients over the years. As a result we have decided to run a competition as a way of encouraging and thank you for these referrals.

### What you can win

- A holiday valued at R20, 000 for two adults.

### How to enter

- Refer someone to us for short term insurance

### 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 Friday 2 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.

### Who is organising the holiday

The holiday will be organised by Simply Bookings who are Tour Operators and Travel Agents to many worldwide destinations. They specialize in scuba diving and beach/bush holidays, and have their own scuba diving beach camp through their sister company, "Simply Scuba" based in Ponta do Ouro, Southern Mozambique. Simply Bookings have put together 3 options below. The winner can choose one of the holiday options subject to the conditions outlined on page 4.

### The holiday options:

1. **Thakadu River Camp – Madikwe, ([www.thakadurivercamp.com](http://www.thakadurivercamp.com)) – Low Season only for two adults**
  - Included: Flight JNB/Madikwe/JNB
  - 2 nights accommodation on Half Board Basis – drinks excluded
  - 2 game drives daily
  - Return transfers from Airstrip

- Excluded: Landing Fee – R52.00 p/person
- 2. Flamingo Bay Lodge – Inhambane, – Low Season only for two adults**
  - Included: Flight JNB/Inhambane/JNB – Friday to Monday only
  - 3 nights accommodation on Half Board Basis – drinks excluded
  - Return transfer from Airport
  - Excluded: Airport tax +/- US\$20
  - *NB this is a malaria area.*
- 3. Mnarani Beach Cottages – Zanzibar – Low Season only for two adults**
  - Included: Flight JNB/Zanzibar/JNB
  - 7 nights accommodation on Half Board Basis in a standard room
  - Return transfer from Airport
  - Airport Taxes
  - Excluded: International Airport tax +/- US\$30 p/person  
 Visa Fee +/- US\$ 60 p/person  
 Yellow Fever injection
  - *NB this is a malaria area.*

Terms and conditions of the travel competition.

- 1) All travel prizes must be taken for return travel before the end of August 2008.
- 2) All travel prizes are subject to availability, neither transferable nor exchangeable for cash.
- 3) All travel prizes exclude meals and drinks not mentioned and other items of a personal nature.
- 4) Winners must have their own passports valid for at least 6 months from date of return travel, and the passports must have at least 3 empty pages.
- 5) Standard travel terms and conditions will apply to each specific destination.  
 Travel insurance is highly recommended and not included in any of the prizes.
- 6) E. & O.E.