

Galileo Quarterly Newsletter



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GENERAL NEWS

THE SKY IS FALLING ON OUR HEADS – WHAT NOW?

Two of the best loved comic characters in history are Asterix and Obelix, who were able to repel the Roman Empire almost single-handedly with the help of a magic potion supplied by their resident Druid. At times over the last year, many of us would have paid a lot of money for such a potion. In keeping with the Asterix theme, the only thing they really feared was the sky falling on their heads. For investors, the equivalent would be the collapse of the financial system. Fortunately, much of the world's woes are not directly affecting our domestic financial institutions as they were protected by the Government's policy of exchange controls and better regulation than their international counterparts.

The dramatic stock market volatility compounded by hysterical press coverage has made many investors nervous and our message to you is that the sky is **not** falling on our heads. All investment portfolios except money market accounts have lost value over the last year. This is one of those years that happen regularly in a Capitalist society – every 6 or 7 years we have some type of crisis, e.g. the IT bubble, emerging market crisis and the oil crisis. These are normal and “flush out” the excesses that inevitably build up in a Capitalist system. For investors, this is never a pleasant experience but it is healthy and without these events our entire economic system would eventually have a catastrophic collapse.

During times like these, you don't need Asterix's cunning or Obelix's strength - you just need to sit tight and “vasbyt”. If we think the sky is going to fall on our heads, we will do our best to let you know!

BAILOUTS, FINANCIAL CRISIS? – WHAT DOES IT MEAN FOR YOU?

The massive bailout of the financial system in the US and more recently in Europe using taxpayers' money was a necessary step to add stability to the financial system. Without these bailouts the banks would have stopped lending to each other (i.e. no liquidity), which would have eventually caused severe problems for customers of banks, i.e. all of us. The bailouts are not be the panacea for all the world's economic woes, but they were necessary. Fortunately our local banks are safe, which means your deposits in any of the large local banks are secure. Unfortunately, local banks have become very reluctant to lend money which means it is more expensive to obtain debt and it may not be possible to use banks to fund new business ventures etc.

We expect the liquidity in the banking sector to stabilise and improve over the next six months. This will be positive for the economy and therefore for stock markets and your investment portfolios. It is obvious that our economy is slowing but we still expect it to grow this year (GDP to increase by 2 -3%) which means we are not going into recession.

RAND COLLAPSE

The recent collapse of the rand against the major international currencies is a source of concern, but we have seen this happen before. Our last experience (during the emerging market crises when the rand hit R13 to the US\$ in 2001) showed us that the rand does recover from these sharp falls. In times of volatility, international investors move out of emerging markets, which hurts the rand. This sharp drop is not a reflection on South Africa, as all emerging market currencies are affected. Our advice is to ride out this fall and PLEASE don't be tempted to send out your rands at R13 to the US\$.

A NEW PRESIDENT AND A REVAMPED CABINET

We have a new president and many new cabinet ministers. Aside from Trevor Manuel's resignation and subsequent re-appointment the transition went exceptionally quickly and smoothly. As pointed out by various commentators, this type of transition is unique in Africa's history and is a healthy sign for our democracy. Naturally, there are concerns about who the new cabinet ministers will be after the election next year, but so far the new ANC leadership have said all the right things. Many of the new Ministers are reputedly competent people with a track record of hard work and implementation – a quantum leap over many of the previous Cabinet members! We are sure there will still be many more ructions as nothing happens smoothly in our political arena, but the initial trend is positive.

HOW TO REDUCE YOUR INSURANCE PREMIUM WITHOUT LOSING COVER

When we experience difficult economic conditions it is always worth reviewing your costs to see where you can tighten the belt. One of the first items most people review is their short term insurance premiums in an effort to reduce costs. In most cases, one is tempted to stop insuring specific items in an effort to reduce premiums. This does have the effect of reducing premiums but the items that are deleted are generally high risk

items, which by nature are most likely to be stolen or damaged. There is a better way of reducing your premiums without reducing your cover.

We have found the best way to reduce your premium whilst maintaining insurance cover, is to reduce the number of specified items that are insured on your policy and increase your unspecified cover. The example below shows how you can reduce your premiums by 18%. We use two clients who have exactly the same items but structure their insurance cover differently.

Client A

Unspecified All Risks	R 5 000	R 32.50
Digital Camera	R 3 500	R 22.50
Casio Wrist watch	R 4 500	R 29.00
Engagement Ring	R 9 000	R 57.30
Apple Ipod	R 2 000	R 15.10
Trek Mountain Bike	R 5 000	R 51.30
TOTAL	R29 000	R 207.70

Client B

Unspecified All Risks	R 20 000	R 115.00
Engagement Ring	R 9 000	R 57.30
TOTAL	R29 000	R 177.30

Both clients have the same cover (in value) but client B pays 18% less due to the way the cover is structured. For unspecified items you are entitled to claim a maximum of 25% of the value of your unspecified cover per item. So in effect you do not need to specify any item valued at less than R 5000. That is why the engagement ring is the only specified item.

The second method of reducing your premiums is to increase your excess payment under the House contents and Motor sections. This means that you would pay a greater lump sum in the event of a claim, which is a form of self insurance. The example below indicates how you can save 7% on your premium if you increase your excess payment by R750.

Client A

ITEM COVERED	VALUE	PREMIUM	EXCESS
House Contents	R300 000	R234.56	R250
Honda Ballade	R100 000	R732.15	R2 500
TOTAL		R966.71	

Client B

ITEM COVERED	VALUE	PREMIUM	EXCESS
House Contents	R300 000	R218.14	R500
Honda Ballade	R100 000	R680.89	R3 000
TOTAL		R899.03	

Client B will have a 7% premium saving and will only pay an additional excess of R750 for both items. If you are willing to take on a measure of self-insurance by increasing your excesses you can generate substantial savings without reducing insurance cover.

Finally, you can reduce your premium by reducing the insured value of your vehicles. We do this annually on your behalf but it can be done every three months on your instruction.

If you have been considering ways to reduce your monthly costs, we suggest that you contact us to see if we can help you structure your insurance cover more efficiently.

GALILEO CAPITAL NEWS

WELCOME TO THE NEW MEMBERS OF THE GALILEO CAPITAL “FAMILY”

Over the past 12 months we have been in discussions with a financial planning firm in Pretoria called Megafin. We are pleased to announce that we have finalised our agreement with Megafin and over the next 6 months it will be incorporated into Galileo Capital. People who were clients of Megafin will still be serviced from the offices in Menlyn and Glenda Oosthuizen will still be the financial planner in that office. Significantly, Glenda will now be supported by our team and will have the back up of three experienced financial planners. For Megafin clients this provides the comfort of knowing that there will be continuity in the event that something happens to Glenda.

We have also concluded an agreement with Dewald Burger of Lucrum Financial Services. Dewald and his family are moving to Australia and we have been working with him to transfer his clients from his previous firm to Galileo Capital. Dewald will remain involved with Galileo Capital and will be available to his clients, should they wish to contact him. All of Dewald’s clients will have a Galileo Capital financial planner who will be responsible for servicing them on a daily basis. Part of Dewald’s responsibilities will be to investigate the viability of opening a branch of Galileo Capital in Australia, so he will still be involved in Galileo Capital for the foreseeable future.

This means that Galileo Capital now has a team of 4 experienced financial planners with (collectively) more than 50 years of financial services experience. All of our financial planners are either qualified Certified Financial Planners or are in the process of completing their studies to obtain the qualification.