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2009: A YEAR OF CONSOLIDATION

Our January 2008 newsletter was titled A Year of Change and that certainly proved to be true. We certainly could not have forecast the dramatic collapse of the global markets but we knew that it was going to be a difficult year. This year is likely to be one of consolidation – the markets will probably stabilize and we will have a General Election that will set the tone for the next four years. On a positive note, our national sporting teams are all performing above expectation (even our much maligned soccer team) and our electricity supply seems to be stable...so far.

Excerpts from our January 2008 Newsletter

There is no doubt that increased volatility will make many investors nervous.

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.

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.

We certainly did not predict the dramatic collapse of the global stock markets nor did we think the rand would drop as much as it did but the principles we highlighted in the points above remain true.

PARTIAL PROGRESS ON SOME OF THE COUNTRY'S WOES

At the time of writing the Supreme Court of Appeal has just overturned Judge Nicholson's ruling against the NPA which means they are free to prosecute Jacob Zuma. At the same time, there is speculation that a negotiated settlement will be reached between Zuma and the NPA. If this results in the current President remaining in charge of

the country, one suspects that this will be the best possible solution to a messy and damaging saga. On a positive note, there have been some noticeable successes by the police against organised crime. There was a big drop in cash-in-transit robberies and some high profile arrests of gangs that PREVENTED crimes. As stated before, it is difficult for police to prevent social crimes (e.g. murder resulting from domestic abuse) but good policing should always minimise organised crime. It seems that our new police commissioner is starting to have some impact, although there is a long way to go before we will all feel safe.

It certainly seems that Eskom has rectified their coal supply issues and they have grasped the importance of plant maintenance. Hopefully their efforts to increase supply and reduce demand will be successful. The Matric results were disappointing again and this remains a cause for concern. Our new Minister of Health, Barbara Hogan, is much better than her predecessor. She does much of her work behind the scenes but she is making a significant improvement in a neglected area.

WHAT IS GOING TO HAPPEN ON THE MARKETS?

Predicting short term market movements is almost impossible for anybody to do successfully. The world's economic woes are well documented and the media are having a grand time feeding more bad news to fearful investors. There is however, some very significant positive news to be considered: inflation is definitely declining; this will lead to lower interest rates which will be very positive for the economy. In addition, the stock market and the property market will react very favourably to a sustained bout of interest rate cuts. Many of our listed companies are extremely well managed and are currently very cheap; this means that they certainly have the potential to capitalise on any economic recovery. We think the local economy will continue to grow this year but at a lower rate than before. If there are no dramatic political hiccups, we may see a positive year in 2009.

RECOMMENDATIONS

Many investors are holding on to excess cash as a result of the market drops of last year. It is our view that 2009 will represent a good buying opportunity, although it would probably be wise for most investors to increase their exposure to investments by phasing their capital in to the markets over a 6 to 12 month period. For more aggressive investors we would recommend a shorter phase-in period of 3 months, as it is likely that the market will be most volatile prior to the General Election and may possibly recover very quickly after the Election.

GALILEO CAPITAL NEWS

INTRODUCTION TO OUR SHORT TERM INSURANCE DIVISION

Many of our new clients may not be aware of our short term insurance division. We provide insurance broking services to corporate and private clients. The business is managed by Hayden Simpson who has 15 years of experience in the industry. We focus on private individuals, SMME's, body corporates and building insurance. If you would

like to get a quote from Hayden you can contact him on 011 502 8800 or hayden@galileocapital.co.za

UPDATE ON OUR COMPANY

Our business grew substantially through 2008. We acquired two financial planning businesses in Pretoria. The first was Lucrum, which was run by Dewald Burger - who relocated to Australia. Dewald will remain on board as a partner in our business but we will manage all our client relationships locally. We also concluded our transaction with Megafin and incorporated Glenda and her team into the Galileo family. Glenda's existing office in Pretoria will become a branch of Galileo Capital. Over the next three months, we will be working with all our new clients from Lucrum and Megafin to ensure that they become comfortable with Galileo Capital and our approach to financial planning.

In addition, our wealth management business grew as an increasing number of people were referred to us by our existing clients. It is normal for people to review their financial planning relationships in difficult times and we are proud to say that we did not lose any clients in a difficult year. This is partly due to our approach to financial planning and largely due to our knowledgeable clients who have realistic expectations of market performance. We are sure that your patience and understanding will be rewarded over the next 12 to 24 months!

We are especially proud of Yolande Botha who obtained her qualification as a Certified Financial Planner (CFP®) which makes her one of the few CFP's in South Africa. It is also very likely that we will appoint a new planner during the course of the year as we want to ensure that each planner at Galileo has fewer relationships, so that we can give more individual attention to each of our clients. And last but not least, Hayden Simpson, Managing Director of our short term insurance division, is the proud father of a new baby girl, Jayden.