



# Platform

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Independent Insight in an Uncertain World

# PLEXUS

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## LOOKING AT ENTRY POINTS INTO EQUITIES AS VOLATILITY SUBSIDES

With the end of the year nearing at a stiff rate of knots, it seems the troika (European Central Bank (ECB), International Monetary Fund (IMF) and European Commission (EC) also wants to go on early leave and put the Eurozone financial crisis to bed sooner rather than later. German Chancellor Angela Merkel and French President Nicolas Sarkozy recently pledged to recapitalise troubled European banks. They have also promised that a rigorous plan to solve the European debt crisis would be formulated before the month of October was over.

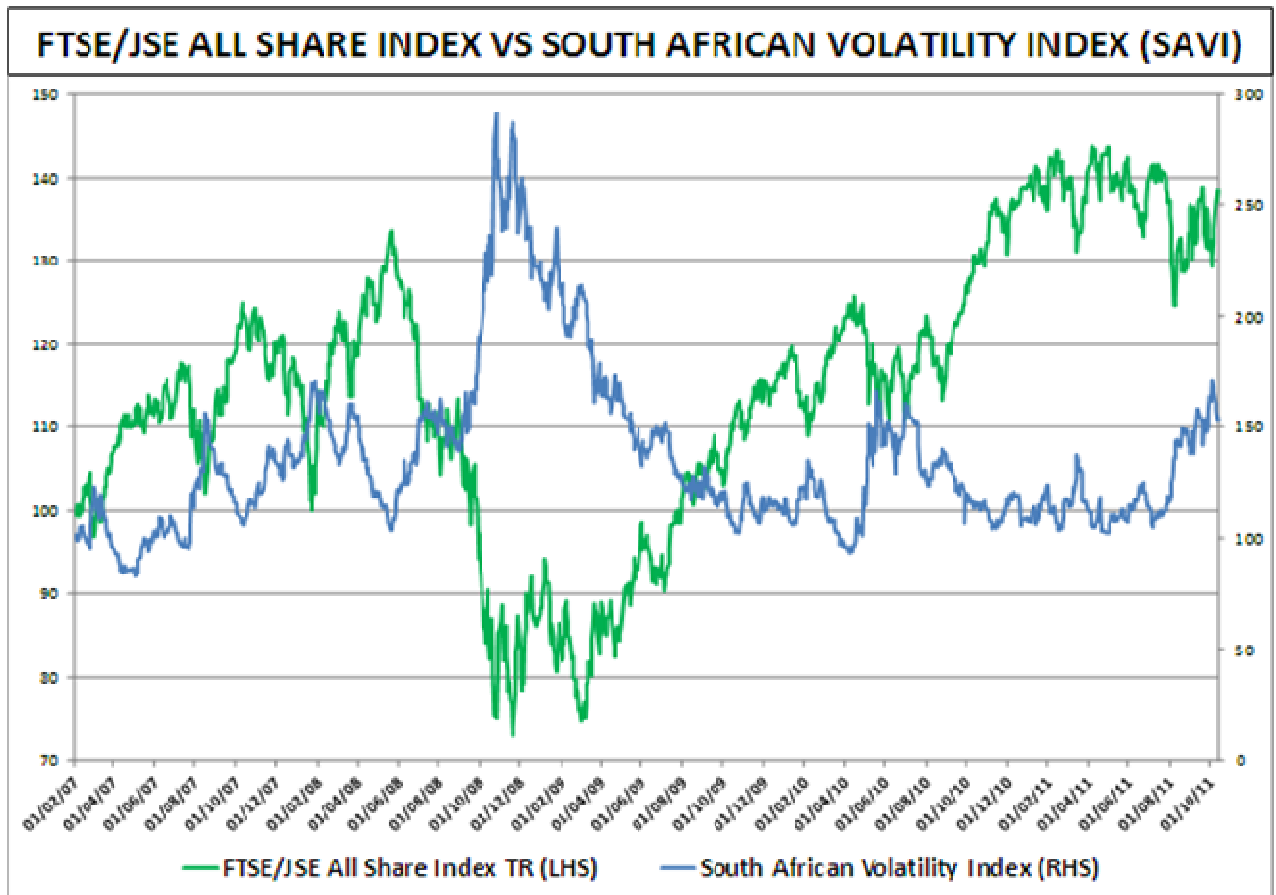
This last statement came as a surprise to many market analysts and investors as the market feels it is unlikely that a proper solution could be reached so soon. Although the troika has been pressing hard to get some kind of emergency stability fund in place to prevent the crisis from spreading and to try to calm the markets down, volatility has been rampant over the past couple of weeks on the back of the uncertainty regarding the outcome of the financial crisis in Europe. In the meantime, politicians across the globe have been doing their best to kick-start the bigger economies once again with various incentives. In an effort to boost job creation, President Obama is unveiling a scheme to attract \$1 trillion in foreign direct investment to the US over the next five years.

The domestic equity market has not escaped the recent market turmoil. As the accompanying Graph A shows, since July 2011 the South African Volatility Index (SAVI) has shot up as the FTSE/JSE All Share Index was sold down on the back of global uncertainty. The SAVI tends to increase significantly during times of uncertainty and normally goes hand in hand with sell-offs in the equity market.

The 'fear' level, as portrayed by the SAVI, has retreated slightly on the back of the troika's recent comments. We have also started to see foreign capital returning to our shores in the past week or two, after foreigners were big sellers of both South African bonds and equities during September (see Graph B). Foreigners have started taking on a little more risk again in their portfolios as they add to their emerging-market exposures like South Africa. The latest bout of buying has helped push the local FTSE/JSE All Share Index up strongly over the past week to show a gain of 3%.

So, have we seen the bottom in the market and what are investors to do? We are of the opinion that while uncertainties still prevail, markets have over the past few months discounted a pretty sombre picture. Conservative investors could stay on the sidelines for now in the safety of cash or short-duration fixed-interest securities until the higher levels of volatility diminish. However, this could take a number of weeks, as history has shown. The less conservative investor could begin to follow a more adventurous strategy by averaging in on market declines over the next few months, or when spikes in the SA Volatility Index occur.

Graph A



Graph B

