



# Platform

5 August 2011 Plexus Asset Management

Independent Insight in an Uncertain World

# PLEXUS

Editor:  
Paul Stewart

Tel: (021) 9702400

E-mail:  
info@plexus.co.za

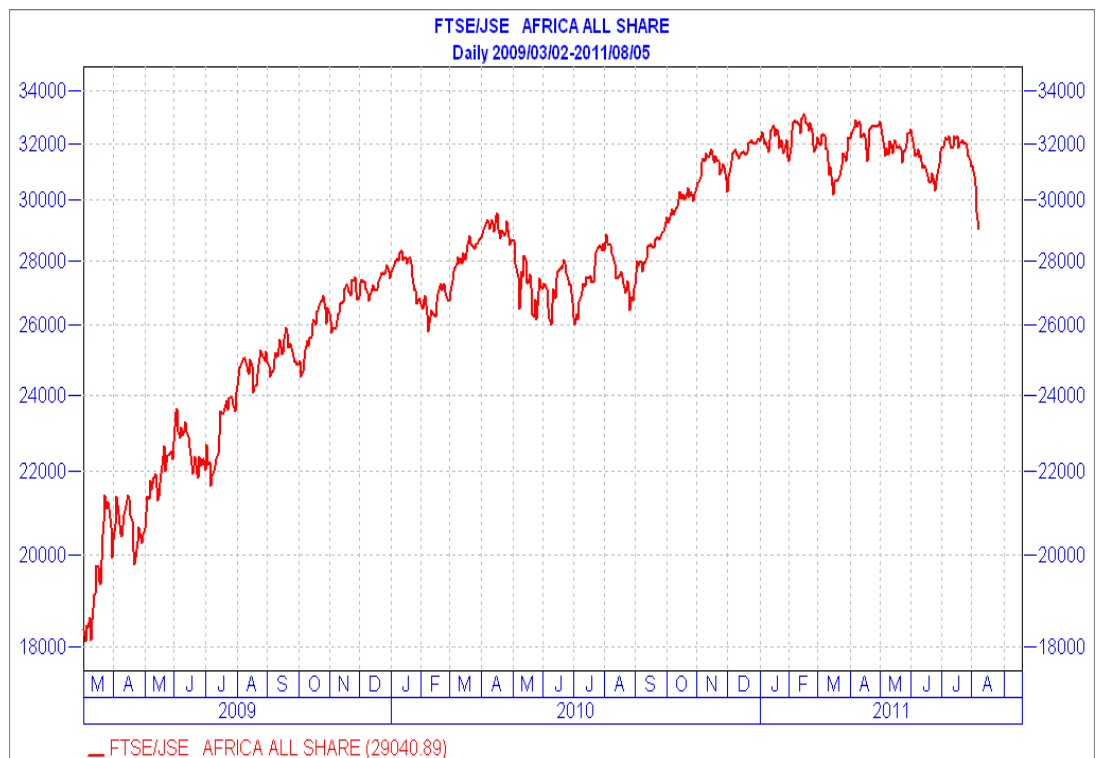
## MARKETS TUMBLE — IS IT TIME TO PANIC?

With investors being bombarded by an array of news headlines announcing “Markets fall dramatically” or “Worst daily decline in two years”, it is no wonder many are inclined to panic. However, while this is what is currently happening in markets, the best and toughest course of action is to remain calm.

The S&P500 has now declined for eight days out of the last nine and has lost 10,8% of its value over this short period. Europe is not faring any better, with the GermanDax down by 12,7%, the French CAC by 13,6% and the UK FTSE100 by 9,1% from their highs over the past two weeks.

However, to put these declines into perspective, one should not forget the incredible run global equity markets have experienced since the March 2009 lows. Both the S&P500 and the Dax increased by just over 100% to their May 2011 highs, while the CAC and FTSE100 were up by 63% and 72% respectively. Perhaps a decent pull-back is warranted, especially considering the fact that the global economic recovery has not been spectacular.

Looking at the local bourse, the FTSE/JSE All Share Index also had an incredible run of just under 83% from its March 2009 low to the high in February 2011. From its high of the past two weeks, it has declined by 7,7% as at yesterday’s closing and by another 1% as at the time of writing this today.



The sharp declines over the past two weeks can be ascribed to a combination of fear and uncertainty on the global economic stage, with the US and many countries in Europe in serious trouble owing to the government's debt situations. With a strong call for fiscal austerity to stop the rot and very little conventional fire power left in their arsenals in the form of lower interest rates, the question on everyone's mind is, are we headed back into recession?

While the scenario in many developing nations and South Africa is nowhere near as dire as the developed-market situation in terms of debt to GDP or real GDP levels, we all know that when the US sneezes the rest of the world's markets catch a cold. However, the question remains: should we be panicking and sell out of equities?

Firstly, let's look at some statistics relating to the ten worst down days for the S&P500 over the past 20 years, and the index's movement the following day.

Date	% Change	
	Worst down days	Following day
15/10/2008	-9.0%	4.3%
01/12/2008	-8.9%	4.0%
29/09/2008	-8.8%	5.4%
09/10/2008	-7.6%	-1.2%
27/10/1997	-6.9%	5.0%
31/08/1998	-6.8%	3.9%
20/11/2008	-6.7%	6.3%
22/10/2008	-6.1%	1.3%
14/04/2000	-5.8%	3.3%
07/10/2008	-5.7%	-1.1%

The table shows that of the ten largest daily declines for the S&P500, eight of the following days were strong positive days on the market. It shows a pattern of general overreaction by market participants when markets sell down strongly. The S&P500's drop of 4.8% on 4 August 2011 was the 17<sup>th</sup> largest drop in the past 20 years. The last thing you would want is to lose on both the down- and potential up-legs by selling out in a weak market and missing the positive portion of performance.

Secondly, while many governments remain in a debt crisis situation, since the onset of the 2008 financial crisis consumers, financial institutions and companies have been hard at work improving their balance sheets. This means that in spite of the fact that slower growth will affect bottom lines, there are still companies out there that offer value when taking a long-term view. This is especially true when one considers the fact that with the current low interest rates in developed markets there is a lack of any compelling alternative investment opportunities in the money market and fixed-interest markets. Furthermore, recent falls in equity prices actually provide us with better entry points into many of these value opportunities.

Last but not least, we do not expect the US Federal Reserve to give up the fight against deflation. Should the situation worsen, we believe Mr Bernanke will do his damndest to get things going again.

From a Plexus standpoint we will not be making any hurried changes to our portfolios in the interim. We believe our balanced portfolios are well diversified, with an overweight

property exposure that has shown much resilience in falling equity markets. Furthermore, the fixed-interest portion of the funds has stood our funds in good stead by delivering top-quartile performance for the year to date in the relevant fixed-interest sector.

While the negative markets will result in short-term negative returns, being invested according to one's long-term objectives and risk profile is still the best position to be in.