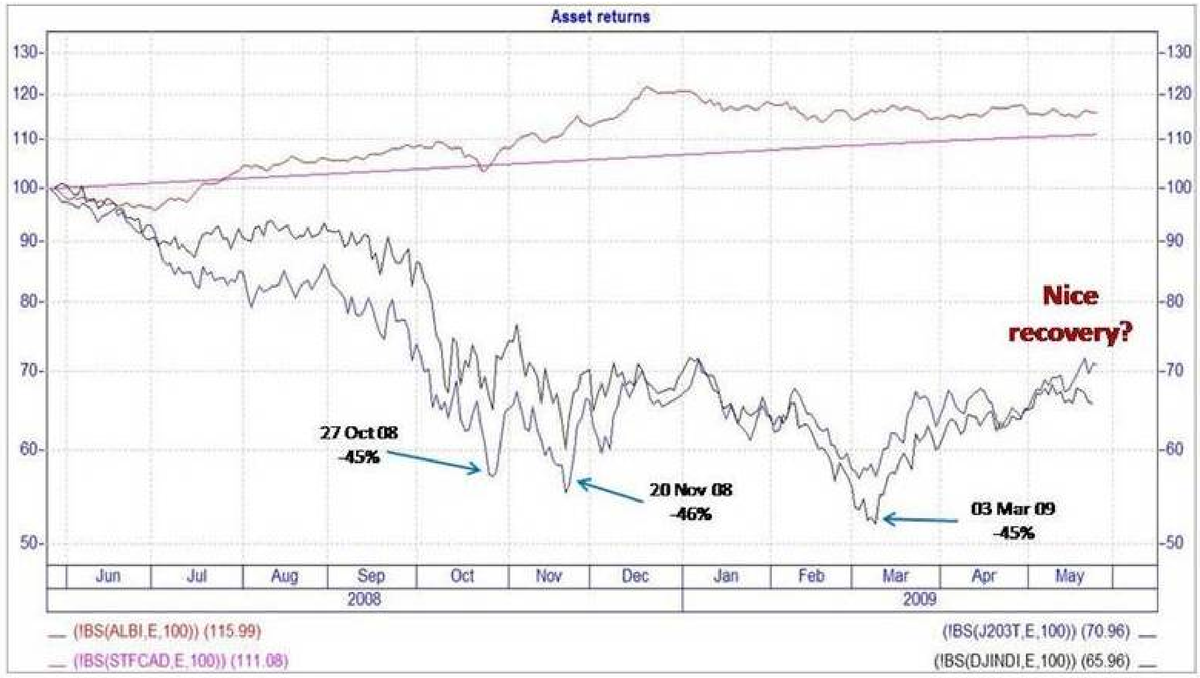
DOUGLAS INVESTMENTS

Investment Environment May 2009

It appears that bumping along the bottom is more of a reality and hopefully 3 March '09 was the last bump! Since our report in early March, the ALSI has corrected to the extent of 27.8% showing a nice recovery and equity portfolios have reflected this.



As is always the case with markets, hindsight is the easy part and we need to take a view of "where to from here?". Clem Sunter provides two scenarios, being "new balls please" which is supported by Obama and Bernanke who argue a V shaped recovery. The alternative scenario is a "perfect storm" expecting a prolonged recession post the long boom the world experienced since the 1970's.

Fortunately the probabilities are in favour of a V shaped recovery as economies enter 2010. Markets might be leading this now and this is helped by a feeling of reduced risk of systemic failure as the financial plumbing of the world appears to normalise. The flags that support "new balls please" would be the unprecedented Central Bank interventions (including the US government stance on General Motors), a significant technological development possibly around a key resource such as energy, and a better economic balance between the East and the West (ie avoidance of a China meltdown). Going forward we need to expect banks to be more tightly regulated implying that credit facilities will remain tight for a long time to come as the world adjusts to more realistic asset values that are less geared.

South Africa might experience a shallower V if the new leadership is inclusive and adopts the urgency to provide support to the economy. We have the advantage of the key drivers being resources, small business and strong tourism and agricultural sectors all of which Government are supportive of. It would also appear that our banks are in better shape than most countries and the return to normal relationships will be quicker. This has been driven by our Reserve Bank Governor, Tito Mboweni, who has used monetary policies carefully but effectively. Interest rate declines have been appropriately timed and will provide the necessary relief to the economy.

Trying to attach an alphabetic letter to the market movement doesn't make much sense as the graph above looks more like a "slinky". Things have been tough and there is definitely a feeling that the gloom is lifting, as shown by the portfolios.