Funds on FRIDAY

glacier by Sanlam

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Time – an investment necessity.

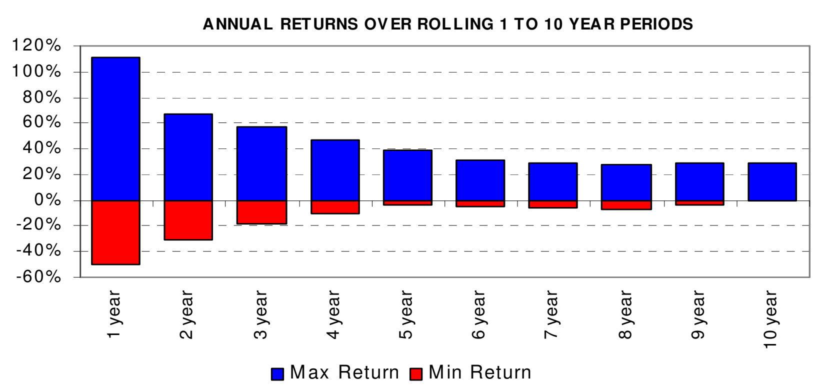
In the previous two Funds on Friday's, property managers emphasized the importance of having a medium term view when it comes to investing in property. With the All Share Index nearing 23000, investors are increasingly questioning the prudence of investing in equities at these levels. This week, we reprint an article by Theo van der Lingen from Alphen Asset Management on the importance of time (not timing!) when it comes to equity investments.

"One thing that upsets equity fund managers is a fashion of shortening time horizons. The problem is that some investors have more of the most precious thing than others - time.

When I was a boy, I sometimes heard my dad buying shares. I almost never heard of him selling them. I also never heard of him making pension fund contributions. I thought it was very risky, though exciting. Today I know that it is exciting to buy a share, but that a long-term buy and hold policy of good quality stocks is not very risky.

Using the latest data, I have recalculated the risk for different time horizons in the JSE All Share Index (dividends excluded). The graphs show the standard deviations for equity over annual periods and rolling periods up to 10 years. Over the period 1960 to 2006, the average annualized pre-tax return was 16.1%. The standard deviation was 26%. This means that in any one year, there is a 68% probability that your returns will fall within +42% and -10%. On the other hand, there is a 32% probability that it would fall beyond this range.

Over any 1-year rolling period, there is a possible spread of 160% (between the best return of 111% and the worst return of -49%). Over a ten-year period, your anticipated spread is much less variable, from 0% to +29%, a spread of only 29% (see graph).



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Alphen Asset Management is a boutique asset manager based in Cape Town. Alphen manages the 7 PSG Alphen Unit Trusts, including the PSG Alphen Growth and PSG Alphen Flexible Fund.

Alphen is 50% owned by the investment team. The other 50% is owned by PSG Fund Management Holdings (Pty) Ltd, part of the PSG Group, a respected financial services group that has been listed on the JSE since 1996.

Further information on Alphen Asset Management can be found at www.alphenam.co.za

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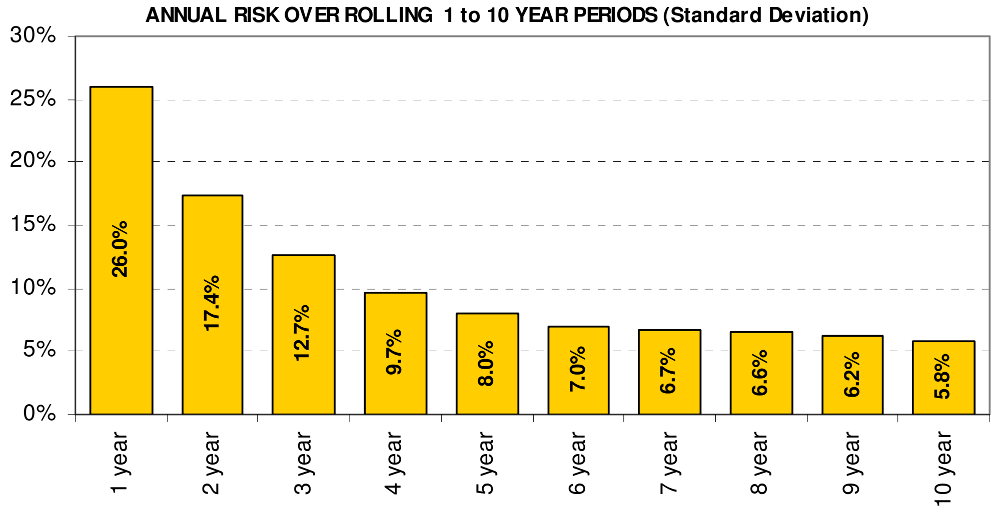
Although all of the above are common knowledge to most of us, I was again impressed by the dramatic impact that an investor's time horizon has on his ability to tolerate risk. Although equities are so volatile in the short-term, as the holding period increases, the volatility / risk declines.



The probability of losing money in an investment generally decreases as the investment time horizon lengthens The risk on equities, taking a five-year view, is less than a third (8%) of what it is for a one year view (26%). The risk, taking a ten-year view, is less than a quarter (5.8%) of the risk taking a one-year view. As is clear from the graph, over longer periods, the risk of holding equities declines.

A recent report, (Merryll Lynch, 17 July 2006), found similar statistics from the S&P 500 where they concluded that the probability of negative absolute returns for the S&P 500 over a rolling 10 year period is zero. In their words: "The probability of a positive outcome, in most asset classes, rises as one extends the investment time horizon".

The above highlights the importance of time perspective with regard to investments. People live longer. A person of 70 is today likely to live for maybe another 10 years. His time perspective should therefore be ten years and not one year. Instead of investing in the money market to earn, say, 7% before tax, he can expect to earn 13% per annum (before dividends) at the same risk in the equity market over the decade."

Glacier would like to thank Theo van der Lingen and Alphen Asset Management for their contribution to this edition of Funds on Friday.