



# KRUGER International

Private Wealth Management

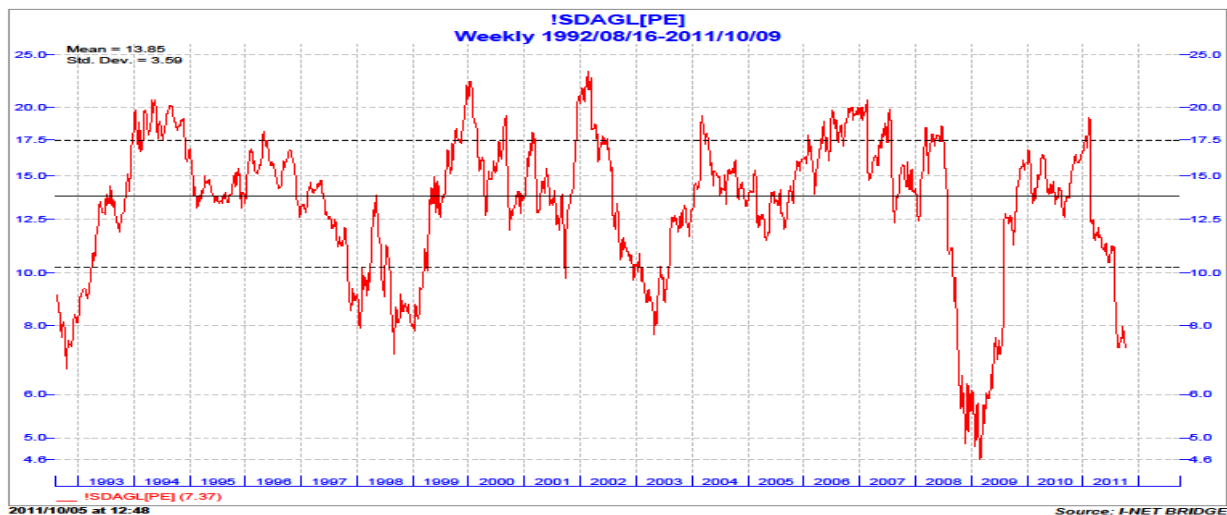
## Quarterly Report October 2011

For the last couple of months investors have constantly been confronted with negative economic news. The US is on the brink of a possible double dip recession and the Europeans can't seem to get their debt levels under control. But what impact does this have on me as a long term investor in equities?

Negative sentiment has placed downward pressure on world markets since May 2011. The increase in uncertainty has led to extreme levels of price volatility. These big swings in prices have given us great opportunities to buy shares over the last couple of months. Equity markets are trading at levels similar to what we last saw in September 2010.

Even though the share prices of companies are cheap their earnings have grown significantly over the last year. Companies have the ability to adapt to changing circumstances in order to remain profitable. This enables these companies to remain able to pay healthy dividends to shareholders. We are currently buying share at very cheap prices, some are trading at the cheapest prices in more than 5 years, but with stronger underlying earnings.

The graph below shows how cheap Anglo American is currently trading. There have only been 4 similar chances to buy Anglo American at a price/earnings level of below 8 times in the previous 20 years.



Interest rates in South Africa are currently at the lowest levels in more than 30 years. The earnings yield on equities is currently around 1.5 times that of the interest rate on cash (or money market).

The Rand has depreciated 21% against the US Dollar since the end of July 2011. This will significantly increase the income of all companies that export. Companies like Sasol, Anglo American, BHP Billiton, MTN and Kumba Iron Ore amongst others will benefit from a weaker Rand. For every 10c weakening in the Rand/Dollar exchange rate, Sasol's operating profit increases with roughly R945 million.

The chance thus lies in the opportunity to buy shares in world class companies at discount prices and share in returns that significantly outperforms money market and inflation over the long term.

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