



FAIRBAIRN CAPITAL

What options are available for investors looking for a safehaven for their capital in these times of great market volatility?

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Money Market Fund Category

Money market funds offer the more conservative investor access to a low risk investment. This option offers money market returns and can serve as a safe-haven for investors' capital during times of volatile market performance.

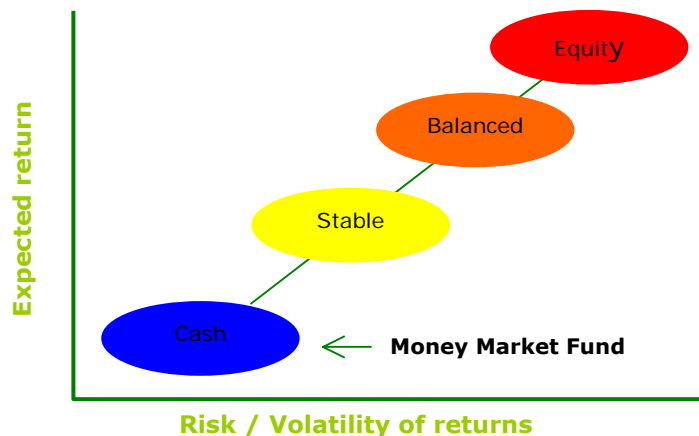
Why invest in a Money Market Fund?

For an investor who is looking for a short-term safehaven for their investments, a money market fund can provide protection against the volatility of markets. These funds are low risk, and generate their returns through interest income derived from investment in a variety of (short term) money market instruments.

As the returns are generated through interest income, money market funds also allow individual investors to benefit from the tax exemptions available for interest income. The first R19 000 a tax year of interest income earned (R27 500 if aged 65 or older) is currently exempt from income tax. This means that, at an interest rate of 12% pa, you could invest up to R158 333 (R229 166 if you are 65+) without incurring tax on interest income. This benefit is applied across each taxpayer's entire discretionary portfolio (excluding Life platform investments).

But are Money Market Funds really always low risk investments?

Investors often take comfort in the relative certainty and stability of returns that money market funds provide. It is true that they do lower risk as measured by volatility of returns, but over the medium to long term this comes at the price of lower expected returns than would be available in funds with greater exposure to growth assets such as equity. This point is illustrated in the graph to the right.



Stick to the plan!

In the long run, one of the biggest determinants of the return on an investment is the relative level of the price you bought at and the price you sell at. And also in the long run, cash has only produced a return in excess of inflation of about 0.8% p.a. (“Don’t panic into cash”, OMIGSA, 25 July 2008). It is therefore clear that for long-term investors, a knee-jerk or sustained switch into cash in the current environment is not necessarily in line with their long-term investment plan. The important thing is to consider one’s individual circumstances.

- Will a switch into cash result in a capital gains tax event if the original investment was bought at a price lower than current market prices?
- Will a switch into cash result in a crystallisation of capital losses if the original investment was bought at a price higher than current market prices?
- How long will the investment remain in cash? Will it be used to fund short-term expenditure requirements in the current tough environment? And is this consistent with the investor’s long-term investment plans?

A money market fund can add great value in managing the exposure to market volatility within an investment portfolio, and as a short-term safehaven for investment capital. But, if used inappropriately, a money market investment may actually be relatively risky, if risk is defined as the chance of not meeting one’s long-term investment goals.

What Money Market options does Fairbairn Capital provide?

Fairbairn Capital offers money market funds across the range of products within both the Galaxy (LISP) and Investment Frontiers (Life) platforms, as illustrated below:

	Galaxy					Risk Rating	Investment Frontiers				
	Investment Plan	Income Plan	Retirement Annuity	Preservation Fund	Underwritten Life Annuity		Capital Portfolio	Income Portfolio	Retirement Capital Port	Capital Preservation Port	Retirement Income Portfolio
SA Money Market Fund						1	✓	✓	✓	✓	✓
Old Mutual Money Market Fund	✓	✓	✓	✓	✓	1					

For more information on these money market funds, visit the Fairbairn Capital website at www.fairbairncapital.comT.

Look out over the next week for analysis of one other Fairbairn Capital fund category suitable for clients looking to reduce their exposure to the volatility of the markets – Defensive Funds.