



20/10/2006

		Other currency equivalent				
		USD	EUR	GBP	BWP	ZAR
9 months 9.45 years-compounded (22 Apr 1997 - 30 Sep 2006)	Net to investors	5.2%	-1.9%	-1.7%	21.5%	27.8%
	Index*	10.3%				
	Investment officer	14.8%	14.1%	13.5%	21.3%	20.9%
	Index*	5.6%				
NAV		\$167.00				

*Weighted index, according to the percentage of assets invested in specific markets. Currently the index comprises the S&P500, FTSE100, TSE300, Hang Seng and Dow Jones Commodities Indexes.

"Fools and knaves, like those at Enron, will always be with us and will be particularly active where big money can be made -- for instance, in reporting ever-higher earnings." - Charles T Munger (Washington Post April 2002)

Letter to investors:

Charlie Munger highlights the danger of derivatives in the above article in his typical clear, short and concise manner. As you know I have been cheering just about anyone that used the words 'danger' and 'derivatives' in the same sentence for probably about three years now. I will provide you with a copy of Munger's article on request.

I thought it a good time to revisit the long term trend in the use of derivatives, specifically in the US. The best source for this type of information is the Comptroller of the Currency's report on derivatives, which unlike almost any report on derivatives presents the data in a somewhat digestible form.

The latest report can be found here <http://www.occ.treas.gov/ftp/deriv/dq206.pdf>

Let's quickly refresh; if, I buy a futures contract on maize/corn then I will usually put down \$10, but the built in leverage of the contract is 10 so the notional value is \$100. If the price of maize goes up 10% then I will make \$10 (10% of \$100) and I will be wiped out if the price drops by 10%.

The following is a table of the total notional value of derivative contracts at the end of each quarter in the US, since 2001. The amounts are in Trillions.

2001				2002				2003				2004				2005				2006	
1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
44	47	51	45	46	50	53	55	61	65	66	70	75	79	82	86	88	92	94	96	105	113

What has always worried me most is that JP Morgan Chase, Citigroup and Bank of America holds 47%, 22% and 19% of the total, respectively. That is too concentrated. The temptation is clear; there is serious money to be made. The first line of the Comptroller's report states, "Commercial banks generated \$4.7 billion trading cash instruments and derivative products in

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the second quarter of 2006, compared to a record \$5.7 billion in the first quarter of 2006 and \$2.0 in the same quarter of 2005."

Both the amount generated and the speed of the increase is staggering. Most worrying though is that the regulation and safeguarding of derivatives is entrusted to the participants; the very people who are making tonnes of money out of it.

Man's track record clearly shows that we have a high propensity to self destruct when we have been indulging in intoxicating and addictive substances; on average man has proven that he cannot pull the plane out of its nosedive when there is a party going on. You might just as well ask a crack smoker to guard the unlocked door to the central police station's confiscated drug strong room. If in doubt just tell him, "You are a responsible person, right? Do the right thing".

Well maybe I am laying it on a bit thick. However, I am certain the right approach lies somewhere between the statements of "The banks are not crack smokers" and "Money is not addictive".

God Speed,

A handwritten signature in black ink, appearing to read 'M. van Blerk', with a stylized flourish at the end.

Martin van Blerk