LABHA
INVESTMENT ADVISORS SA

QUARTERLY REPORT **Q3 / 2008**

September 2008

The dollar staged a dramatic recovery of 10-15% versus the major currencies as the prevailing view was that the US was being proactive and that the worst in the US had past whereas the rest of the world had not done enough to support growth and would now see the effects of this lack of action. Gold weakened to USD 750 before making a sharp recovery to USD 900 as fears about the safety of cash deposits lead to the purchase of gold.

We had advised increasing dollar exposure at parity to the Swiss Franc and booking profits 10% higher. We recommended a doubling of our client exposure to gold when it had its setback and this position is one we advise clients to hold for a while.

With the recent government action internationally, we expect the situation in the credit markets to ease gradually. This would serve to restore confidence and be supportive of share prices. Currently, there are several large companies with solid balance sheets, steady cash flows and dividends that exceed yields of government bonds selling at low valuations. Therefore, we believe that as credit markets start to ease and the fear of loosing capital ebbs, these companies will be considered very attractive investments; hence, we recommend accumulating them now. Investors have gone from irrational exuberance in favour of emerging markets and commodities to complete aversion to the very same themes in the space of less than a year. Having advised clients to sell out of or highly underweight all of these areas very near the top, we have now advised stepping back into them as they have fallen an average of 40%.

For us the discipline which we have maintained through this volatile time - advising clients not to sell stocks which we believe are cheap and refusing to recommend those we believe to be expensive even if they had momentum in their favour, has paid off repeatedly. We continue to advise an increase of holdings in stocks and sectors we believe have favourable exposure to demand supply imbalances when they reach good entry points and avoidance of those that are being bought due to euphoria or panic.

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