

## Perception and reality

### Issue 59: February 2013

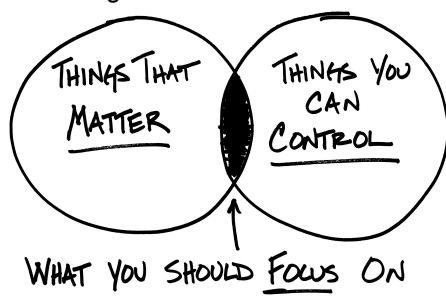
South Africans generally tend to be negative – and for good reason. Our perception might be that circumstances are much better abroad. So what is the reality?

We have major unrest in Europe; especially Greece could destabilize the region. Greece has a defunct government with no proper tax collection. With unemployment figures of roughly 27% in both Greece and Spain, what are the prospects for these Mediterranean governments? The US stock market returned roughly 2.1% per annum in dollar terms over the last 12 years (measured by the “Dow”; the 30 largest companies in the US). On the contrary our markets have flourished since 2000 (even in dollar terms over the same period). Apart from its high debt levels, America has many other problems from crime to illegal immigration. Further, corruption amongst government officials in Russia and China is some of the highest in the world. Japan had negative economic growth for more than 30 years (the Nikkei dropped about 50% over the last 12 years) and is stuck with a severe demographic problem. There are too many old people! Recently international banks reinstated debt claims against the Argentine government, which was responsible for a complete default and economic collapse between 1999 and 2002. We had Malema and now it is Nkandla & Co. There is certainly trouble abroad but we are not alone.

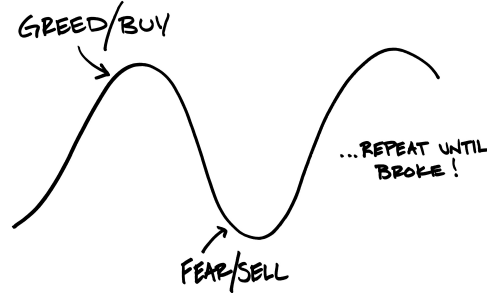
#### Plan appose to predict

In our previous letter we stressed the importance of a planning process. It ultimately helps us to **align decisions with our financial goals** otherwise we are prone to hop in-and-out of various investments (usually by “casual” recommendation) thus missing out on long-term capital appreciation. We should be making decisions not on what happened, but by looking forward; and our goal shouldn't be to look for the next Google or Apple. By looking at the history we may get context, but too often we drive while **only** looking in the rear-view mirror; ie using hindsight.

Rewinding back to January 2012... who would have thought that 2012 would deliver such stellar returns? The JSE ALSI was up nearly 28% (12 months till 31 December 2012). Listed property returned on average 36% over that same period. While the Venezuela Stock Exchange rose more than 300% in 2012, the Nigerian as well as Turkish exchanges returned more than double the JSE. To crown it, Greece was one of the top performers globally! I vouch to say that most of us would not have thought to invest in either of these latter countries. The fact is that we cannot predict and we should be careful doing so. Hence, we **plan** appose to **predict** by determining appropriate expectations, making some trade-offs and **sticking to our strategy**.



Doing nothing is futile in itself, but continually searching for the “perfect investment” will only distract us. Sometimes we might deviate from our plan due



to the constant stream of news and media exposure. Do we have control over these events?

Am I capable of making rational decisions? What if my decisions are based on either **fear or greed**? In many instances making good investments, is more about our behaviour than the actual investment we make (sketches made by Carl Richards, The Behavior Gap).

#### Offshore investment alternatives

In order to protect ourselves (over time) against a weakening Rand, we have consistently allocated between 10% and 30% to international investments. During the last 12 months, the Rand lost about 15% against the US Dollar and boosted the performance of our investment strategies (this is an important component of appropriate long-term diversification). The magnitude of allocation will always be a function of particular personal requirements eg. some individuals have permanent relatives or children abroad, which require assets to reside outside South Africa.

We are currently working with Sygnia Asset Management to review and establish a cost effective institutional investment which will allow clients to access **passive** as well as **active** investments – similar to our local strategies (passive investments utilizes computer models which significantly reduces management fees and eliminate emotional decisions. There are some flaws to passive investing, which the active component makes up for by **blending the two styles**). This offshore vehicle will enable us to construct a “core and satellite” portfolio with direct ownership of quality (blue chip) international companies such as Coca-Cola, Unilever, Nestle etc. on the periphery – valuable and stable international companies that offer exceptional products and services to growing emerging markets. Constructing such a portfolio it is vital to assess your structure such as trust etc.

#### Our practice is 20 years old in 2013!

We want to take the opportunity to thank many loyal clients throughout these years. In 1993 Skottie quitted corporate South Africa to start his own financial planning business. The original name was Monte Christo, but we changed the name to Afrafin for aesthetic reasons and to identify with a particular scarce plant, which demonstrates unique qualities, the Kukumakranka of the Western Cape (the botanical name is Gethyllis Afra).

From the outset our focus was tailored advice towards individuals. The placement and management of investment portfolios have always been the bulk of our practice. In essence, we aspire to be a small, nimble and an **independent** advisory practice (with no outside shareholding) and with personal contact to our clients; hence no call centres. Today only a few companies offer high quality services with the necessary **personal contact**. We would like to think that we challenge the status quo and “conventional wisdom”.

Please visit our Website for more information [www.afrafin.co.za](http://www.afrafin.co.za) or provide us with your feedback.