

A focused perspective

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No one could have thought that global financial markets would deliver such returns over the previous 12 months. Time and again economists and pundits claimed severe uncertainty coupled with more speculation. This injected fear with the layman investor. What are our conclusions? We don't know what is going to happen; we can only manage uncertainty to some degree. Plus, we don't need to worry too much about the daily news flow. It is for the most part utter noise.

Once again, being part of the market (through its various cycles), has proved to be a better strategy than trying to time it; i.e. waiting for the perfect exit or entry point. Those individuals, who "read" too much into the financial markets, were eventually caught on the sideline while the JSE All Share Index slowly crept up, well above its historical highs since the 2008/2009 financial crisis with a roughly 20% return per annum.

An international perspective

The weak Rand is definitely topical, but we are not alone. Currencies of India, Mexico, Brazil and others have been battered. As South Africans we tend to isolate ourselves amidst our political uncertainty and labour unrest. Often we would like to compare South Africa with countries such as America or Germany, but is that fair? Poor political leadership and corruption is a global phenomenon. Although with pot holes, at least we have roads (many countries don't have our infrastructure), white beaches, clean air and well run local businesses with international exposure. More than 50% of company earnings on the SWIX Index (a basket of companies on the Johannesburg Stock Exchange) are earned in Pounds Sterling, US Dollars and/ or Euros. Quite impressive for such a tiny country, that is less than 1% of the global economy.

When the Rand was strong, certain business sectors claimed it was too strong. Now it is weak. So what do we want? The bottom line is that we are in a long-term trend where the Rand will eventually weaken over time and our clients' portfolios need to have the appropriate allocation to protect their purchasing power.

MINT's taking over from BRICS?

Jim O'Neill from Goldman Sachs who coined the term Brics (Brazil, Russia, India, China, South Africa), is now hailing the Mints (Mexico, Indonesia, Nigeria and Turkey) as the new growth frontier. In contrast to South Africa, Nigeria with its rich oil reserves, appears to lead the way. With a young and large population they are well placed geographically. Mexico is next to the US, while Indonesia is in a prime position in Southeast Asia. All these countries are commodities producers.

Megatrends of our time

At the beginning of 2013 Clem Sunter released (in his opinion), the 10 megatrends of the 21st Century. One needs to study his perspectives. Below we shall attempt to summarise highlights.

1. **Populations are ageing.** Many established economies have negative growth rates in their populations. The number of people over 100 years old living on this planet is set to explode and somehow will have to be catered for.
2. **More economies will become so-called "steady state".** Japan has led the way having been a high

growth economy for the 1970s and 1980s. Since 1990, growth has been somewhere between 0% and 1%. Growth and economic expansion, as a concept, has really only been around for 200 years. Prior to the industrial revolution it was only the favoured few who expanded empires and trade.

3. We have moved from the *Age of Knowledge* to the *Age of Intelligence*. The Internet means that access to, and knowledge, increased exponentially. The differentiator now is the way we utilise knowledge to create new knowledge; connecting the dots and leading innovation. This is all about intelligence which implies teaching the next generation cognitive skills.
4. It will rather be about **defending your wealth** than growing wealth. Since 2000, food price inflation has averaged around 10% a year. Petrol prices have escalated above that rate. It has become difficult to create wealth unless you are prepared to absorb more volatility. Careful financial and tax planning with good advice are essential.
5. **Education** is not aligned with the job market. Around the world, youth unemployment is a major issue. The main reason is that schools and tertiary institutions are educating pupils for the job market of the last century. In those days, a decent academic qualification guaranteed a job. Nowadays most kids have to be entrepreneurs and start their own businesses. Facebook, Twitter, Tesla, Paypal etc. are examples.
6. We are witnessing a **second wave of exploration**, and potentially a more dangerous one for resources. All the easy-to-find energy deposits have been found. We are now into the remoter deposits, which require new methods of processing for example fracking. By the middle of this century, the next big technological wave after IT will be improving resource utilisation efficiencies.
7. **Wars** will continue to be fought as weapons become more sophisticated.
8. Like the **black swan theory**, natural disasters will come out of the blue and perhaps more often.
9. **Dictatorial regimes will become rarer**, but what replaces them is not necessarily democracy.
10. The **work/ life balance** is now even more elusive. In the last century, business executives did not work 24/7. They did not have mobile phones and could not get emails at home. Now work has intruded every aspect of life and it is taking its toll.

How rich are the rich really?

According to a study leading up to the summit in Davos, Switzerland and released by Oxfam, the international development aid organisation, the richest 85 people in the world own about the same as the poorest 50% of the world's population.

Oxfam attributes this inequality to a "power grab" by the elite, with income inequality on the rise in most countries. The report cites global opinion polls in the USA, UK, the Netherlands, Spain, Brazil, India and South Africa, according to which a large majority think that the rich have too much influence. It is an unsurprising, but an alarming statistic.