

Sometimes there ain't no reason

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In this issue we share a letter from Jurie Gouwsventer. Jurie has been working with us for some time. His practice Mindfulmoney is also part of our independent association with Finsolnet. Amongst others it is a platform where we exchange knowledge and ideas. In this way we avoid a situation where decisions are made in isolation. You are welcome to peruse his webpage at www.mindfulmoney.co.za.

A difficult year ahead of us

A friend of mine recently remarked that he felt as exhausted at the end of the first quarter as he had felt just before the December holidays at the end of last year! "This will turn out to be a very long year for you, my friend" I thought to myself.

Earlier this year I cautioned that 2015 would turn out to be a challenging year - at best a difficult year - for us. It might very well be that the exhaustion my friend was complaining about, had something to do with that. After all, we have faced quite a few challenges since the beginning of 2015, including:

- Continued load shedding (expect a lot more during the next few years);
- Disruption of parliament by the EFF;
- Increase in personal income tax rates (predicted in my January letter);
- Continued polarisation in South Africa by radicals on the political left and right (e.g. defacing of national monuments and subsequent reaction).

But the market often does not react as one would expect. In spite of all of the negative news however, the local bourse managed to register a positive return of 5,4% during the first quarter of 2015.

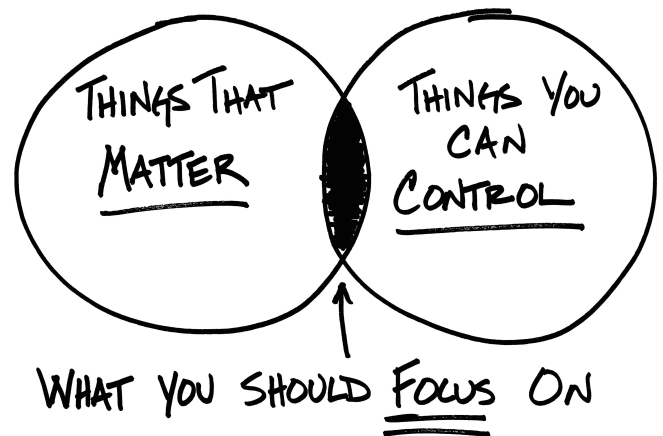
This made me think of a story that I would like to share with you. On the Friday morning after the EFF had disrupted the State of the Nation address (SONA) in parliament, I received an email from a client who was looking to invest abroad. After the previous night's events in parliament, she wanted to postpone the conversion of her Rands to foreign currency since "yesterday's theatrics in parliament will certainly cause the Rand to weaken".

Few of us who witnessed the fiasco as it was unfolding in parliament on that fateful Thursday evening would have differed with the sentiment expressed by my client. But what happened the very next day? Our stock market closed on a new record high and the Rand strengthened against the Dollar, the Pound and the Euro! So how on earth is this possible?

Looking for causes

In his book "Thinking, Fast and Slow" Daniel Kahneman, one of the pioneers of behavioural finance, writes that our desire to make sense of our world leads us to look for causes and to draw all sorts of inferences. But more often than not, the conclusions that we draw are flawed and we see causes where in reality there are none. The financial press often models exactly this kind of behaviour. Kahneman cites the example that when Saddam Hussein was captured in 2003, the price of American

bonds initially rose and later (on the same day) declined. Both, the increase and decline of US bond prices were explained on the basis of Hussein's capture! This sketch of Carl Richards tells the whole story:



We are given plenty of reasons on a daily basis why events unfolded on the stock exchange or in currency markets in such and such a way. Please learn to take all of this commentary with a pinch of salt and if you can, remember this quote from Franco Buseti, author of "The Effective Investor": "Given that the market is an aggregation of millions of decisions and money flows, in the absence of an overwhelming event, this commentary is based on no evidence whatsoever and is therefore pure speculation at best and quackery at worst."

Long-term trends

So, is the response of our stock exchange and currency on that Friday after the SONA an indication that the events of the previous evening were inconsequential? We do not think so. It is probably more a matter of the chaos we witnessed having been expected and so therefore financial markets did not respond the way one would have anticipated intuitively. After all, opposition parties had made it quite clear in the days leading up to the SONA that they were going to disrupt the event. And while the Rand may not have responded as expected on the day, it is true that the chaos that surrounded the SONA did nothing to instil the kind of confidence required to reverse the long-term downward trend of the Rand against the world's major currencies. In the end our point is basically that any attempt, which seeks to explain the daily ups and downs of financial markets, is mostly an exercise in futility. Hence we try to formulate financial conclusions based on events that often don't carry much weight at all. Instead, at Afrafin and Mindfulmoney we make an effort to gain insight to longer-term trends and we do our analysis and planning accordingly.

Coming of age

Last year, Afrafin as an independent advisory practice, was already 21 years old. Initially Afrafin was better known as Monte Christo. It is true that with time things do change and the time has come for us to move offices. We are all very excited about our future at 4 Bergsig Avenue, Zomerlust Estate in Paarl. Please stop by when you are in the area.