



# OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot July 2019

The newsletter serves as a place to converse on market related information and thought-provoking investment matters. We may also communicate links to noteworthy articles of interest in the public domain, as we want our investors to be financially literate in order to understand where our investment and its specific risk profile fits into their respective portfolios.

### MAIN INDICES NEWS

All-Share Index YTD: 10.43%  
Best 12m USD/ZAR @ 25 July '18: R13.11/\$  
Worst 12m USD/ZAR @ 05 Sept '18: R15.42/\$  
2019 USD/ZAR moves: Opened 14.38/\$, weakened to 14.99/\$, now under R14/\$ again  
(Data: IRESS/Bloomberg)

### LOCAL HIGHLIGHTS & LOWLIGHTS

- Commissions of enquiry revealing many allegations of corruption and wasteful expenditure, allegations still to be tested by courts. Zuma set to appear before Zondo commission.

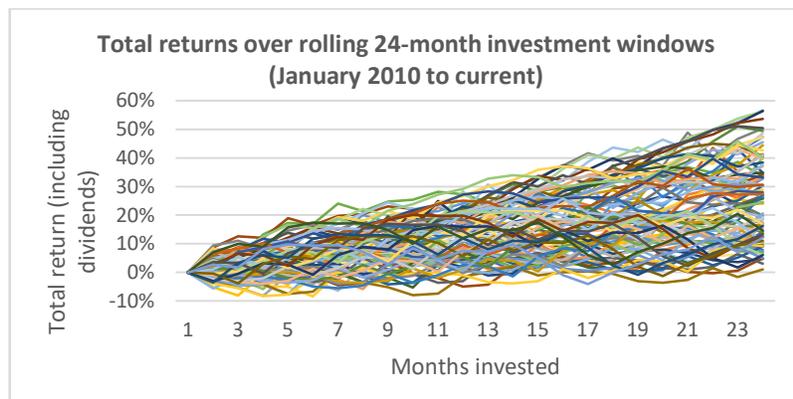
### GLOBAL EVENTS OF NOTE

- US/China talks affecting Huawei, UK's stance on this in Trumps focus  
- Interest rates in the USA expected to fall, influencing global currencies

### FOCUSED COMMENTARY: The Equity 'Gamble' & R/\$ predictability

Investing in South African equities always brings a unique journey to the investor's table, with large possible gains and losses possible from month one and most advisors promising large returns if you ride out the variability for more than five to seven years. Few investors are brave enough to pick shares themselves, paying a well-branded manager a fee to beat a benchmark can leave a sour taste in the mouth if they fail for a period of time, and investing in an low cost index (for those convinced passive is better than active) can bring great variability of returns.

The graph below shows all 91 possible two-year return paths that investors would have achieved if they invested funds in our All-Share Index (roughly 160 shares, weighted by market capitalisation) at the start of any month from January 2010 to July 2017:



One can easily see that the results represent a mixed-bag of outcomes. Some investors would have not beaten inflation or cash at all, while only those who invested during end-2011 to end-2012 would have received 20% or more per annum. From 2014 onwards an average total return of 12.5% over two years (6.08% annualised) was delivered, barely beating money-market returns. While the big pay-offs of equity cannot be denied, the investors who were down almost 10% after three months were definitely sweating bullets. Equity investors therefore need a high risk tolerance.

The myriad of local- and global political and economic events over the past 10 years have all had their unique influence on the return paths visible in the graph. It also captures a period where many of our large companies have strongly diversified their income streams to other countries, leaving them very exposed to currency moves. An interesting shift over this period has been that when negative news in South Africa causes the rand to weaken, it now actually lifts our local bourse because the negative currency moves increases the value of foreign income on the company's books.



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All that said - local market profits and the future moves of our Rand remain very difficult to predict, and prudent investors are advised to diversify across investments should they not wish to lock in returns over a short period of time.

To close off, here are four articles worth reading, two relatively recent, one educational, and one providing historical insight:

[moneyweb: the-rand-isnt-SA's-share-price-anymore;](#)

[pimco: understanding-currencies;](#)

[businessinsider: bruce-whitfield-on-the-rand \(2019-7\);](#) and

[fin24: rand-slides-as-banks-warn-sa-currency-performance-wont-last \(2017-06\)](#)

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### QUOTE FOR THE MONTH:

*“There are no guarantees in trading. The sooner you accept that you sooner you can release your expectations and focus unconditionally on a proven process.” — Yvan Byeajee, The essence of trading psychology in one skill*

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