



OPPORTUNITY PRIVATE CAPITAL

October 2019

Welcome to the Opportunity Private Capital Investor Newsletter. 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: Opened 51,264 and currently around 55,900 (excluding the effect of dividends)
- USD/ZAR @ 18 October: R14.80/\$
- South Africa 10Y Government Bond yield: 8.384%

(Data: Moneyweb;
www.worldgovernmentbonds.com)

LOCAL HIGHLIGHTS & LOWLIGHTS

- Tito Mboweni's Economic Strategy document slowly being accepted, rehashed version to be tabled soon.
- Labour Unions grip on the RSA job market may loosen due to new laws getting passed
- Load-shedding back on the cards.

GLOBAL EVENTS OF NOTE

- US/China trade-wars taking a positive turn
- Brexit deals seems a possibility after much negativity

FOCUSED COMMENTARY: Behavioural finance & impact on R/\$ predictability

Everyone who monitors and/or invests in the local and global markets will agree that price levels and price stability is not 'efficient' over the short term, and therefore the predictability of many assets' prices are close to impossible. The reason for this mispricing and volatility is that humans are involved in the processes, and that we are far from the "rational" beings first hypothesised when capital market theories were brought to the table.

The field called behavioural finance studies the influence of psychology on investors and analysts alike, and tries to shed light on why we see certain reactions to market information. Let's eye-ball and investigate the past twelve months' Rand-Dollar (R/\$) graph (source: www.xe.com) lay a foundation to Behavioural Finance.



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The R/\$ is very liquid, reacting quickly to market sentiment changes. The graph shows how the currency see-saw'ed, strengthened and reverted, with big moves and little ups-and-downs. Off the bat we should stand back and ask: "So what really changed in South Africa to move it like this?" My answer would be "Not much". Between Brexit, structural weakness, and trade wars, the market was trying to predict what the future may hold, hence the moves which were driven by information and sentiment, not structural changes to legislation or physical investments.

We could venture to say that R/\$ was mispriced at times due to behavioural errors. There are two classes of behavioural errors: (i) "Cognitive errors", stemming from basic statistical information processing or memory errors. Cognitive errors may be considered the result of faulty reasoning. Then (ii) "Emotional biases", stemming from impulse or intuition. Emotional biases may be considered to result from reasoning influenced by feelings, and may be largely dependent on the personality type at play.

Below is a list of each group's biases, please Google them if you are interested to learn more.

Examples of biases due to cognitive errors: conservatism, confirmation, representativeness, illusion of control, hindsight, anchoring and adjustment, mental accounting, framing, availability.

Examples of emotional biases: loss-aversion, overconfidence, self-control, status quo, endowment, regret-aversion.

With the R/\$ we may never be able to pinpoint which exact biases were at play because of the structural complexities and the influence of global news, but it is safe to say that a mix of biases occurred. Two possible biases include:

- Overreaction in positive and negative currency changes/moves could have happened because of confirmation bias, whereby investors mentally neglect positive or negative news and over-focus on news that support their existing sentiment or their hope of what may happen. If the "herd" of investors feels the same it causes a "stampede".
- Fear may well have caused some overreaction to the bombing of the oil fields on 14 Sept, bringing back memories of 9/11. Exaggerated currency moves followed, and only started correcting when stability in the region was confirmed.

QUOTE FOR THE MONTH:

The fact that people will be full of greed, fear or folly is predictable. The sequence is not predictable. ~Warren Buffett~

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