

## Stick to the game plan

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Iconic investor Warren Buffett does not attribute their success over the years to mere intelligence. In fact, it's more about avoiding mistakes, they say. Charlie Munger, his long-time business partner, once said: *"It is remarkable how much advantage we have gotten by trying to be consistently not stupid, instead of trying to be very intelligent"*. This statement may seem obvious, but in the investment world if you ask anyone whether they're being stupid, they'll likely say they aren't and never have been. Unfortunately we don't always realise when we are making a mistake. When it comes to financial planning and investing, they might think they are smart, but in many cases they are not well informed.

Unfortunately the investment process isn't a solved problem – **there is no magic formula**. Neither is it a closed electric circuit with an on and off switch. There are no secrets. Investing is the perfect example of a complex problem with no known solution. If there were any solutions, someone would have mastered it. This is why there will never be a quick or easy way to get wealthy (if there was, everyone would be rich by now). Think about the multitude of problems the world faces today. If any of these problems were easy, they would have been solved. This means that only the hardest and most complex problems remain. The investment "secret" is pretty straightforward, but few follow the advice because it is too simple: Live with less than what you earn, save the difference and remain patient.

#### Performance in perspective

Over the past 5 years our local JSE traded within a band of 51 000 and 60 000 points. Understandably clients want to know when performance is likely to improve and whether one should not invest everything in cash or abroad. By the way, the UK FTSE doesn't have much to show for over that same period and Germany may even slip into a recession during 2019.

The US was certainly the place to be for the last 10 years – between early 2010 and late 2019, the US market has moved from roughly 10 000 points to almost 27 000, a return of approximately 10% per year (in US Dollars)! As an illustration, the preceding 10-year period between 2000 and 2010 was caught in a sideways pattern. During that period the US market moved negative 0,71% per year for an entire decade! At the same time the JSE returned almost 13% per year with the Rand depreciating by only 1,8% per year (from R 6,15 to R 7,39 to the US Dollar). What lesson do we take from this?

- **Financial markets (including overseas markets) can and do move sideways for extended periods of time;**
- Investing abroad (outside South Africa) is an important consideration, but it does not necessarily guarantee superior investment returns.

Warren Buffett famously said that the stock market is a mechanism to shift wealth from the impatient to the patient. Think about that. Could we possibly regret any sudden changes we made in the near future?

#### A world with low or negative interest rates

What does low to negative interest rates mean? In his recent memo to clients Howard Marks from Oaktree Capital in the US called this a mysterious phenomenon. He writes: *"The fact that we know what they are—as we*

*do with inflation and deflation—doesn't alter the fact that we don't know for sure why negative rates are prevalent today, how long they'll continue in force, what might cause them to turn positive, what their consequences are, or whether they'll reach the U.S."* Large parts of Europe and Japan have negative interest rates. Negative rates imply that the lender pays the borrower. Further, the depositor does not receive any interest. In fact there is a levy on cash deposits!

Could low rates result in the irresponsible allocation of capital? Would it result in too much money chasing too few good opportunities and thereby creating another investment bubble? Does this mean that these countries may enter extended periods where their economies are unable to grow enough in order to absorb higher borrowing costs? What does this mean to an aging European and Japanese population where fewer people pay tax and contribute to unsustainable pension schemes?

In context of South Africa this might well mean that investors abroad could look for opportunities elsewhere which offer a higher real return (after inflation). If South Africa is able to hang onto its investment grade and maintain trust (together with a disciplined fiscal and monetary policy), lower rates abroad should potentially benefit our economy. Foreigners might be willing to buy our debt for infrastructure development etc. At the moment there is plenty of uncertainty around Eskom. The risk is our government's increasing borrowing cost with little to no economic growth and willingness to change its policy.

#### Moody's rating and prescribed assets

The medium-term budget policy statement at the end of October by Finance minister Tito Mboweni lacked any concrete measures to tackle the obvious problems. Moody's revised South Africa's outlook to negative. Effectively Moody's has given treasury an ultimatum that requires reform over the following 3 to 9 months. Our investment status hangs by a thread. Moody's have recognised the political factions and vested interests by labour unions and alike that inhibit any change that will affect parts of the population.

The 2019 election manifesto of the ANC further stated that government would 'investigate the introduction of prescribed assets on financial institution funds to unlock resources for investments in social and economic development'. This means a requirement to invest in pre-determined developmental projects such as schools, state-hospitals and infrastructure. Once again we caution clients against any rushed action. At this stage we are not sure if and how this reform will be implemented.

#### Stick to your financial plan

Just as the Boks worked with their coaching staff on a game plan, so too each person needs his own unique financial plan – a decision-making framework to avoid mistakes and to meet specific financial goals.

The Springboks first lost against New Zealand and their strategy against Wales was not pretty, but it worked and ultimately they reached their goal. With a few adjustments along the way, stick to your financial plan.