Insanity of different worlds

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Friedrich Wilhelm Nietzsche, a German philosopher and cultural critic, once said: "*In individuals, insanity is rare; but in groups, parties, nations and epochs, it is the rule*". By the way, he is also credited for: "*That which does not kill us, makes us stronger*". How appropriate during the times we live in! No matter whether you are a follower (or critic) of Biden, Malema or Bitcoin, some level of insanity seems to prevail...

Our expectations

Due to social media, different ideas and convictions have never been so pervasive. Just think of more than 2.5 billion people commenting on Facebook, Twitter and Reddit. The more different the view point, the angrier people seem to get. In a world where people spend hours a day scrolling through social media, looking at pictures and reading the casual opinions of other people, what do you do? It's important, because when you're exposed to people who are experiencing a different world than you are, it becomes easy to ask, "*Why don't I have what they have?*" or they might ask, "*Why don't they have what I have?*" Or just, "*Why are you not like me?*".

Our world is not only divided around different opinions. The COVID pandemic revealed a gap and it could become a major problem unless it is properly addressed by local communities and governments. We are all in the same (similar) boat. This crisis demonstrated to us that some people are in a much better position (and perhaps equipped) to help themselves. Others aren't that fortunate and just don't have the means to do that. In July 2020 job losses in South Africa were estimated at roughly 3 million. This is a scary thought if you think about stability and building a nation. Luckily, we don't know the future and we cannot predict it! We could make inferences, but that is our best guess.

Global debt is at an all-time high. A real recovery (the disconnect between what they refer to as "Main Street" and "Wall Street") cannot happen overnight. Never should we underestimate humans' inherent drive to innovate change and adapt. In the past, pessimists have been proven wrong many times by the emergence of new opportunities and technology. We should not discount our ability to re-invent ourselves.

What could we learn from financial markets?

We reflected on the 2008 GFC (Great Financial Crisis) and the years after around 2010. It helps to obtain perspective and insight. Several points remain important:

- **We expect 1 + 1 + 1 + 1 + 1 + 1 + 1 = 7 but it actually works like this: + 1 -3 + 4 + 2-3 + 5 + 1 = 7;**
- Embrace volatility; i.e., the movements of markets;
- Investment portfolios require continual review and attention, but trying to "time the market" could be expensive (investors that sold out during March 2020 locked in huge losses);
- Our Rand (ZAR) will continue to lose ground to the stronger economies and currencies. Any local portfolio should be positioned for that continual weakening;
- The ZAR remains a volatile currency;
- It is important to position retirement portfolios in order to protect funds against the future risk of inflation and a potential significant weaker Rand (ZAR).
- The pace of change and frequency of swings in markets, across the globe, will increase with time. As an example, Tesla is now roughly 2% of the S&P 500 index and amongst the largest tradeable securities;
- There is no single investment decision (or style) that will always produce the desired results. Just ask the so-called "value" investors who did well between 2002 and 2007. We prefer a balanced instead of a dogmatic approach;
- Investors may require different approaches over various business cycles, while keeping their own cash flow requirements in mind. Diversification between asset classes (and perhaps alternative instruments), fund managers, as well as management companies, ensure independence while exceptional ideas are blended together;
- **Avoiding mistakes has a meaningful impact and is more important than picking "winners".**

The risk of not taking enough risk

During 2020, the SA Reserve Bank (SARB) cut interest rates by 3% to the lowest level in 50 years – to boost the economy following the devastation from this pandemic. Although this is good for the intended borrowers, it is bad for savers and retirees.

Behavioural finance is well documented. It is a known fact that investors favour funds that have recently performed well (hindsight bias). The converse is also true, with poorly performing funds experiencing investor exodus and vice versa. **There are good reasons considering the opposite**. It is highly unlikely that money market and income funds will provide the returns of the previous ten years. The risk is that long-term investors who disproportionally allocate funds for "safety", will be locking in underperformance. Remaining too conservative; i.e. "I don't want to lose any capital", translates into the probability that someone might deplete his or her assets with the inability to ensure the future purchasing power. A sound financial plan remains the key to long-term financial success. A financial plan helps with your decision-making process and may eliminate any errors based on emotion.

FAIS regulation and the General Code of Conduct

By now everyone should know that the FSB (Financial Services Board of South Africa) had changed its name to the *Financial Services Conduct Authority* (FSCA). In order to bring more harmony and oversight, financial regulation will be enforced by both the SARB (South African Reserve Bank), as well as the FSCA. Most of the changes involved a move away from a rules-based environment to a *conduct-based compliance* for service providers and intermediaries. Some of the recent proposals and changes are:

- The intention is to regulate crypto currencies such as Bitcoin and its intermediaries. Perhaps the recent MTI (Mirror Trading International) scandal triggered a proposal towards the end of 2020. We await more details on this front;
- The FSCA wants to monitor and regulate marketing and client communication using the word "independent". By definition it is not always appropriately used amongst services providers;
- The format and content of advice rendered to clients will be regulated. In other words, what pertinent and relevant information should be disclosed and how? The definition "plain language" has been included in legislation and providers will need to assess the financial knowledge and experience of clients.

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