

#### "The cost of reacting to weak markets"

Investors were mostly disappointed with returns in 2016 as a combination of weak local equity markets and a recovery in the rand led to low single digit returns across a wide range of funds. By way of comparison, the main industry sectors are shown below, highlighting the fact that all of the main fund categories delivered negative returns relative to inflation for the year.

Sector	Return for 2016 (ZAR)
Conservative Balanced Funds	3.7%
Moderate risk Balanced Funds	1.2%
Local Equity Funds	3.2%
Offshore Balanced Funds	-8.4%
Offshore Equity Funds	-7.8%
SA Inflation	7.0%

Table 1: Net returns after fees. Source: Fundhouse; FE Analytics

A common reaction we see from investors is to question the investment strategy in place with their financial planner, and to naturally seek corrective action. This approach and reaction is the single largest way in which to erode long term investment returns. Let us explain by means of three illustrations.

Chart 1 below highlights the consequences of reacting to weak markets by withdrawing from long term savings portfolios and investing in safer alternatives such as cash or bank deposits. Investment returns are unfortunately not earned in a straight line, they are lumpy and as such investors need to be present in the market to experience these lumpy returns.

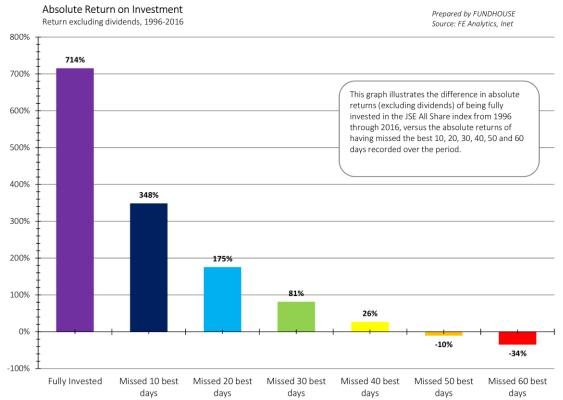


Chart 1: Consequences of missing the best days on the JSE 1996 – 2016. Source: Fundhouse





If you had missed (eg. not been invested in shares because you moved your investments to cash) just the 10 best days in the local share market over the past 20 years, you would have halved your total investment return! This escalates to total return losses (ie your ending capital would have been less than your starting capital) if you missed the 50 best days on the market.

The second example is to demonstrate the range of returns you may expect as an investor over any given year, relative to the longer term savings objective of your portfolio. In Chart 2 below we show that over the past 25 years, an investor could have experienced a return net of inflation of between plus 44% and minus 30% over a 12 month horizon for a balanced retirement fund. This compares with the minus 5.8% real return similar investors experienced in 2016 – clearly things can get a lot worse! Also to note that if you roll the poor experience of 2016 just one month forward, investors received inflation-matching and in some cases, inflation-beating returns over 12 months.

However, by remaining invested, this range of returns narrows to between positive 4.3% and 12.9% after inflation, when held over a 10 year horizon. It pays to stay the course.

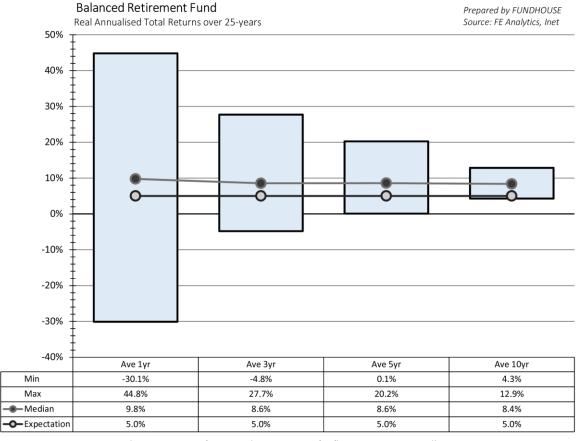


Chart 2: range of expected returns net of inflation: Source: Fundhouse





The last illustration is to highlight exactly how difficult it is to try and time the market. If you consider how an asset class which is this year's best performer, was often last year's worst performer (and potentially next year's worst too), it hopefully makes sense that responding to markets without a strong fundamental investment case is also, mostly, a sure way to erode wealth. Chart 3 below shows the winners and losers each year for the past 10 years:

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	January
Emerging	Global Bonds			Global Bonds		Global Equities		Global Cash	SA Bonds	SA Equities	SA Equities
Markets	41.7%			28.9%		56.4%		34.4%	15.4%	4.3%	4.3%
35.1%		42.2%	29.6%		35.9%		26.6%				
SA Listed	Global Cash	SA Equities	SA Equities	Global Cash	SA Equities	Global Cash		Global Equities			Emerging
Property	39.2%	32.1%	19.0%	22.4%	26.7%	23.8%	15.9%	32.8%			Markets
26.5%											4.0%
SA Equities	SA Bonds		SA Bonds	Global Equities		SA Equities	Global Bonds	Global Bonds	SA Cash		SA Listed
19.2%	17.0%		15.2%	15.3%	Markets	21.4%	11.1%	29.7%			Property
					24.2%					1.6%	1.6%
SA Cash	SA Cash	SA Cash	SA Cash		Global Equities		SA Equities	Emerging	SA Equities	SA Bonds	SA Bonds
9.4%			6.9%		21.7%	20.2%	10.9%	Markets	2.6%	1.4%	1.4%
				8.9%				14.0%			
Global Bonds		<b>Global Equities</b>		SA Bonds	SA Bonds	Emerging	Global Cash	SA Listed		Global Equities	
6.1%		3.5%		8.8%	16.0%	Markets	10.7%	Property		1.0%	1.0%
			6.8%			20.2%		8.0%	-1.9%		
Global Equities		SA Bonds	Global Equities		Global Bonds		SA Bonds	SA Cash	Global Equities		SA Cash
5.7%	-19.8%	-1.2%	0.4%	5.7%	9.6%		10.1%	6.5%	-5.1%	0.6%	0.6%
						8.4%					
SA Bonds	SA Equities	Global Bonds	Global Bonds	SA Equities	SA Cash	SA Cash		SA Equities	Global Bonds	Global Bonds	Global Bonds
4.3%	-23.2%	-14.8%	-5.2%	2.6%	5.6%	5.2%		5.1%	-9.9%	-0.3%	-0.3%
Global Cash	Emerging	Global Cash	Global Cash	Emerging	Global Cash	SA Bonds	SA Cash	SA Bonds	Global Cash	Global Cash	Global Cash
2.1%		-19.8%	-9.8%	Markets -0.5%	5.5%	0.6%		-3.9%	-11.1%	-1.3%	-1.3%

Key:
SA Cash - SteFI
SA Bonds - BEASSA All Bond index
SA Listed Property - SA Listed Property Index
SA Equities - All Share Index
Emerging Markets - MSCI Emerging Markets Index
Global Cash - 3m USD Libor
Global Bonds - Barclays Global Bond Index
Global Equities - MSCI World Index

Chart 3: asset class winners and losers. Source: Fundhouse

Over shorter horizons the investment markets can be frustrating, so it is worth paying attention to what we can control: ensuring we have a suitable financial plan in place; that our chosen fund managers are well equipped to deliver for us over time, and last but not least, that we are conscious of our own behavioural biases which can cause real damage to an investment portfolio.





### 31 January 2017

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr	10yr
Sector								Vol¹	Vol¹
LOCAL MARKET INDICES (In Rands)									
FTSE/JSE All Share Index (ALSI)	ZAR	4.7%	4.3%	10.3%	8.5%	12.7%	10.7%	10.3%	15.1%
FTSE/JSE SA Listed Property	ZAR	2.4%	1.6%	15.4%	18.1%	16.6%	15.0%	14.3%	15.5%
SA All Bond Index (ALBI)	ZAR	1.0%	1.4%	11.9%	8.6%	7.2%	8.0%	7.9%	7.5%
SA Cash Index (SteFI)	ZAR	1.9%	0.6%	7.5%	6.7%	6.1%	7.3%	0.2%	0.6%
Balanced Benchmark <sup>2</sup>	ZAR	3.4%	2.7%	7.5%	9.5%	13.0%	10.9%	6.2%	6.2%
SA Inflation (1 month lag) GLOBAL MARKET INDICES	ZAR	1.2%	0.4%	6.8%	5.8%	5.7%	6.1%	1.4%	1.4%
Global Equity (MSCI World)	USD	6.4%	2.4%	17.1%	6.0%	9.9%	4.0%	11.1%	16.5%
Emerging Markets Equity (MSCI EM)	USD	0.8%	5.5%	25.4%	1.4%	0.2%	2.5%	15.5%	23.5%
Global Bonds (Barclays Global Bond Index)	USD	-3.3%	1.1%	2.3%	-0.2%	0.1%	3.5%	4.6%	5.9%
Global Cash MAJOR INDICES BASED TO RANDS	USD	0.2%	0.1%	0.6%	0.3%	0.3%	1.1%	0.1%	0.5%
FTSE/JSE All Share Index (ALSI)	ZAR	4.7%	4.3%	10.3%	8.5%	12.7%	10.7%	10.3%	15.1%
Global Equity (MSCI World)	ZAR	6.4%	1.0%	-0.7%	12.8%	22.6%		13.3%	13.8%
Emerging Markets Equity (MSCI EM)	ZAR	0.8%	4.0%	6.3%	8.0%	11.8%	9.0%	12.0%	15.7%
SA All Bond Index (ALBI)	ZAR	1.0%	1.4%	11.9%	8.6%	7.2%	8.0%	7.9%	7.5%
Global Bonds (Barclays Global Bond Index) COMMODITIES	ZAR	-3.4%	-0.3%	-13.2%	6.3%	11.7%	10.1%	12.7%	14.6%
Gold (US Dollars)	USD	-5.0%	4.2%	10.2%	-0.8%	-6.9%	6.5%	17.2%	19.4%
Gold (Rands)	ZAR	-5.0%	2.7%	-6.6%	5.6%	3.8%	13.3%	18.7%	21.8%
Currencies (positive return = Rand we	akening)								
Rand / Dollar	ZAR	-0.4%	-1.6%	-15.6%	6.4%	11.6%	6.4%	14.2%	16.5%
Rand / GBP Pound	ZAR	2.4%	0.2%	-25.3%	<b>-2.7</b> %	6.7%	1.8%	14.1%	15.2%
Rand / Euro	ZAR	-2.1%	0.6%	-15.9%	-1.2%	7.4%	4.5%	12.7%	13.7%

### **Spot Rates**

31-Jan-17		6-Feb-17	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
Rand/US\$	Rand	13.28	13.69	15.46	8.07	6.97	4.68
Rand/GBP	Rand	16.55	16.70	22.55	12.53	13.66	8.02
Rand/EUR	Rand	14.27	14.44	16.80	10.46	9.25	5.56
Rand/Aus \$	Rand	10.15	9.89	11.25	8.24	5.52	3.72
Libor 6m \$	US\$	1.34	1.32	0.85	0.81	5.37	N/a
Prime	Rand	10.50	10.50	9.75	9.00	12.50	20.25
Repo Rate	Rand	7.00	7.00	6.25	5.50	9.00	N/a
All Bond Index Yield	Rand	8.93	8.98	9.38	8.49	9.71	14.62
Gold (\$/oz)	US\$	1,235.30	1,150.60	1,060.82	1,564.35	636.75	367.65
Palladium	US\$	768.00	676.00	547.00	630.00	324.00	116.50
Platinum	US\$	1,014.00	903.00	891.00	1,394.00	1,135.00	370.50
Oil (Brent Crude) \$	US\$	55.95	56.82	37.28	107.22	59.61	22.74
SA Inflation	Rand	N/a	6.80	5.20	6.10	5.80	9.40

data provided by Profile Data Analytics and INET BFA

