WHAT NOW?

HOUSTON: The global markets are being unsettled by the PIGS in Europe despite the ongoing recovery of the US economy. US retail investors are in a difficult position with their investments - bonds are likely to lose money as interest rates will rise in future, equities have already done well and cash is offering negligible returns. This is very similar to the situation facing SA retail investors. US financial institutions are being hammered by politicians, regulators and the media in a sustained attack that is likely to result in excess regulation of financial markets. The interesting part of all this is that SA investors are in a much better position than their counterparts in the US and other developed markets.

THE US POLITICAL SITUATION IS TENSE

One of the major issues that investors in South African shares have to consider is "political risk" as our country is deemed to be politically more risky than developed markets. After spending time in the deep South of the US, I would suggest the political divisions in the US are as significant as in South Africa. Racial tension is rife and is exacerbated by illegal immigrants streaming in from Mexico. There is massive tension in the border states because the US borders with Mexico are porous and locals accuse the Government of doing nothing to stem the tide. The parallels with South Africa are amazing and put our own issues in perspective. Even the biggest economy in the world cannot secure its borders and it is the illegal immigrants who are being blamed for high levels of crime. Whilst one cannot generalise about such a massive country, I was interested to note the level of dislike that Southerners have for Barak Obama – it seems that racial tensions are still high in the US.

AMERICANS ALSO HAVE PROBLEMS WITH CRIME

If you watch the local TV news in New Orleans or Houston on any given night, you are almost guaranteed to see daily articles on murders in the cities. Similarly, Arizona is dominating the headlines because they are trying to clamp down on illegal immigrants because of increased levels of crime in the state. Their cities are relatively small, Houston is the 4th largest city in the US with a population of 5.9 million. By contrast Gauteng has a population that exceeds 10 million, which should give some context to our situation. Whilst our crime rates are unacceptably high, we are not alone as sufferers of violent crime. With the massive resources at their disposal, US police cannot cope with escalating crime any more than our police can.

JOE AMERICAN IS DROWNING IN DEBT

The average American has some really serious problems with debt. Each person has an average outstanding consumer debt of $8,200 compared to an average annual income of $46,381. Consumer debt includes credit card and store card debt but excludes mortgages. It is fair to say that Joe American is barely keeping his head above water and when you add the effect of outstanding government and corporate debt, he is drowning. The debt situation in the US is far worse than in South Africa partly because we have superior consumer protection in SA. The Americans don't have anything like our National Credit Act to shield vulnerable consumers from aggressive banks who offer credit to those who can't afford it.

WHAT NOW?

As in South Africa, many private investors in the US have not been invested in the stock market and therefore have missed the recovery. Now they are wondering if it is too late to invest as they are worried that the market may fall after the big bounce. In addition, they are wary of investing in government bonds because these are likely to lose money as the Fed increases interest rates in the months and years to come. Cash is a very poor investment because interest rates are so low that investors may actually receive nothing on their savings accounts. Whilst the interest on cash is higher for South Africans, we are largely in the same situation as American investors.

The advice that is being touted by advisors and the financial media is very similar to the advice being provided here. If you need to increase your investment in shares but are concerned about the high levels of the stock market, you should make a plan to phase money into the market over a period of 6 to 12 months. Concerns might vary depending on the market but issues such as crime, political instability and financial regulation are a fact of life for all investors in all markets. The fact remains that investors need exposure to shares if they want to beat inflation. The only asset classes that have a reliable history of beating inflation are shares and property (specifically commercial/industrial property) so you cannot afford to remain in cash for extended periods of time. For those who are sceptical about our prospects as an investment destination, remember that our resource based economy is likely to benefit from the Chinese and Indian growth for the next 25 years. Other resource based economies like Australia are doing their best to destroy their resource industries with the ridiculous super tax proposals. By contrast our government appears highly rational and forward thinking...