

# INFLATION VS. INVESTMENTS

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JOHANNESBURG: Inflation is the second greatest danger to long term savings, only stupidity is more dangerous. Unfortunately, one cannot manage stupidity (ask any manager of politicians) but you can manage inflation. That does not mean you can control the inflation rate of the country but you can structure your investments to beat inflation. The data (and anecdotes) below are from Alan McConnochie who is a Director of Robert Cowan Investments. He shows the impact of inflation as measured by the price of Wimpy meals and how a single investment (Standard Bank shares) can beat inflation over time.

## *INFLATION IS A SLOW POISON*

### **What happened from 1983 to 2010? The price of the meal rose “just” 13.1x over 27 years.**

Well, a rise of 13x over 27 years sounds a lot less than 54x over 38 years but that illustrates the beauty of numbers –they can distort anything. The annual gain from 1983 to 2010 was 9.98% compared to 6.99% for the 38 years. (And if GST on the 1983 prices was 15% not 10%, the annual gain will be lower too).

Table 2: Increase in Wimpy prices from 1983 to 2010

	2010	1983	Increase
R R (X)			
Wimpy Burger & chips	31.95	2.20	14.5
Wimpy Mixed Grill	59.95	3.85	15.6
Toasted cheese and tomato	17.95	0.99	18.1
Bacon & eggs	18.95	2.97	6.4
Cheeseburger & chips	34.95	2.53	13.8
Total menu	163.75	12.54	13.1
Average gain			13.7
Annual % gain on total menu			9.98%

Table 4: Increase in Standard Bank share price 1983 to 2010

	5/03/10	28/02/83	Increase	Annual
R R (X) Incr %				
Share price	112.96	0.95	119	19.36
Dividend	3.86	0.04	97	18.45
Total Menu	163.75	12.54	13	
Shares per meal	1.45	13.2		
Divs per meal	42.42	313.5		

### **Standard’s price has risen 119 times since 1983!**

Yes, I know it’s hard to believe Dr Ben but if you had paid as much attention to your dividends as to your Wimpy toasted cheese you would have realised that your dividends grew from 4c to R3.86 which is 18.45% per annum. The share price slightly outperformed dividend growth managing 19.36% per year. Thus your meal rose 13 times but your shares rose 119 times! In those days it would have taken the dividends on 313 shares to buy your meal – now it only takes the dividends on 42 shares to buy your meal. So yes, you were right, it was tough in the old days. However, you were wrong when you suggested that “no investment keeps up with the cost of living”.

Another way to look at it: if you were silly enough to sell shares to pay for the meal, then in 1983 you would have had to sell 13 shares at 95c each to pay for your meal of R12.54. Today you will have to sell just 1.45 shares at R113 to pay for your meal of R164.

**Standard Bank's share price graph – 1985 to date**

Unfortunately, our graphing system only goes back to 1985, not 1983 or 1972. Nonetheless, this still shows an increase from R1.15 per share to R112.65. Even if you bought it near a short-term top, a few years later you were delighted that you owned it.

