# JSE FUNDAMENTAL OUTLOOK IS GOOD

CAPE TOWN: The volatility that we have seen on the JSE (and other international markets) over the last 12 months has been very unsettling for investors. Most people are gloomy about the markets despite the fact that the JSE has returned nearly 10% over the last year. There is so much bad news about the global economy that investors could be forgiven for thinking that there is no point investing in the JSE at the moment. There are real fears that the Europen government debt problem will not be resolved for years if not decades. In addition, the European troubles have taken attention away from the US which is still in deep trouble. Since the start of the Financial Crisis in 2008 there has been little for investors to cheer. Many people with cash to invest in the JSE have taken the view that they will wait for things to get better. This decision has proved to be real mistake that is likely to compound against them if the JSE continues to perform well.

## *THE FUNDAMENTALS ALWAYS APPLY*

The total return of the JSE All Share Index for 12 months ending October 2011 was 9.41% which is nearly double the return of cash over the same period. It is highly likely that this return is not going to be a 12 month phenomenon because many of the underlying companies on the JSE are in good health. Many large local and international firms are sitting on enormous piles of cash that will be invested or distributed to sareholders in the future. In addition their profits have started to recover and grow at a good rate. It is true that economies are struggling with debt but this should not distract investors from the fact that there are many businesses who are starting to thrive again. At the most basic level, investors need to understand that it is the performance of these companies that will determine if their shares will appreciate in value.

Earnings and dividends of the compnies in the JSE have grown by more than 30% in the 12 months to October. Share prices are not growing nearly as quickly as the companies are generating cash and profits. If this trend is sustained, share prices will eventually catch up or investors will be getting fantastic dividend yields that beat the interest on cash. Either way, there are many reasons to be positve about the prospects for the potential returns for equity investors over the next few years.

We should also be watching the moves of wise old foxes like Warren Buffett who invested nearly $24 billion in the three months ending September 2011. This is the biggest quarterly investment that he has made in 15 years and should be a great signal to the rest of us that many companies are offering great value now. This is one of my main issues with stock markets, we need to distinguish between information and news. In my view, this is information that must be noted by those who are considering equity investments. Much of the news about economies has been very negtive over the last few years but this negative news has not been material if you consider the performance of the companies on the JSE. This means the news has distracted people and prevented them from focussing on the real issues.

## *HOW TO MANAGE YOUR MONEY IN THESE TIMES*

Investors who are in a position to invest capital in the markets, should be praying for more volatility. If the markets remain unsettled whilst the underlying companies continue to grow their profits and cash balances; the foundations will be laid for the next Bull Run in markets. I have a feeling that the companies that survive the trying conditions we have seen since 2008 will be high quality businesses that will reward investors for years to come. Companies that survived the listings boom (and subsequent crash) of the late 1980’s are some of the JSE’s current stalwarts.

I would be using the current volatility to buy high quality businesses at great prices and I would be reinvesting their dividends for the next few years. I think those who are patient accumulators of shares at this time will be highly rewarded in years to come. At this stage I would be focussing on companies that know how to use capital effectively and have a history of paying good dividends over the long term. An alternative strategy would be to buy a fundamental index or the equally weighted Top 40 index. My preference would be to buy these indexed investments via a low cost stock broking account and to compliment them with a few individual high quality companies. I would definitely phase my capital into the markets over a period of months to limit the impact of market volatility on your initial purchase price.