

# INVESTMENT PREDICTIONS FOR 2013

Every year I get asked to make a range of predictions including: what will the Rand do, how will the JSE perform, will the residential property market recover and what will happen to the overseas markets? Without fail, I try to explain that any prediction - irrespective of who makes it - is largely worthless. After I have explained why, some people look at me with a quizzical expression and promptly ask me to "guess anyway". If we look at what happened in 2012 as an example - hopefully we can see why investment predictions are a waste of time.

## **BEST PERFORMING ASSETS IN 2012**

According to the Economist Magazine, the best performing asset class in the world in 2012 was Greek Government Bonds. These returned more than 80% for the year. Portuguese Government Bonds were a close second. I cannot recall many investment gurus predicting this. More to the point, you would be hard-pressed to find many globally diversified unit trusts that had a sizable allocation to either of these asset classes. I am not critical of the fund managers who did not allocate 20% of their portfolios to Greek and Portuguese bonds; it would have seemed reckless at the time. However I believe it proves the point that you cannot formulate a proper investment strategy based on predictions. You will either be horribly wrong or miss out on the spectacular performers.

In terms of stock markets, it has been widely reported that the Venezuelan Stock Market rose by more than 300% for 2012 (not sure why the Economist missed this) whilst Turkey and Nigeria's markets returned nearly 60%. Even Greece's stock market outperformed South Africa's with a return of 32%. I am sure that none of these sectors would have been on your Top 5 Best Ideas list for 2012.

## **HOW TO MANAGE YOUR SHARES IN 2013?**

At current levels, the PE ratio of the JSE is 15 which means it is now slightly above long-term average value. The market is not very expensive yet, we have seen PE's of 20 in the past. There are still pockets of value - Resources and Construction in particular - but one needs to be cautious about some of the other sectors including Property, Retail, Industrials and Financials. I think valuations should play a crucial role in any new investment decisions for 2013 - even more than they normally do. If you have new capital to invest in the JSE, you should seriously consider phasing your money into the market over the next few months.

If you are a stock picker, aim for sectors of the market that are trading at or below their long term average PE's. The retail sector is near its highest valuations and cannot offer great value to investors at this stage. However if I were a long-term investor with exposure to retail shares, I would not sell all my shares at this time. I would rather be reducing my exposure so that retail forms a smaller part of my portfolio - below your long-term ideal allocation.

It is important to ensure that you are not absolute in your investment decisions. So, if the retail sector continues to boom for the next three years, you should still be able derive some benefit from the boom. However if it collapses in June you

will still be in a good position if you have already taken some good profits in January and allocated them elsewhere.

Try to remember that more than 50% of your total equity return comes from re-investing your dividends over time. If you are out of the stock market completely, you are not earning dividends therefore you are limiting your potential returns in the long-term.

It is also important to watch the profits (earnings) and especially the dividends paid by the larger listed companies. If profits and dividends increase more than their share prices increase, the valuation of these companies will decline. This is obviously an ideal scenario and I am not convinced that this will unfold (especially for the Retail sector) but it is not impossible.

### **TO INDEX INVESTORS**

This is one of those times in the market when active stock pickers will be arguing that you are crazy to invest in the index when it is breaching all time highs on a regular basis. As an index fan, I think this argument has limited merit. There are great indexed investments that are still worth consideration. Personally, I like the ETF's that limit your exposure to sector bubbles. For example equally weighted ETF's and Fundamental indices are worth consideration, especially if you phase your purchase into the index over time. At all times, make sure that you focus on the cost of your investment, the lowest cost investments inevitably provide the best growth over longer periods of time. This is particularly true of ETF's.

I am not normally a fan of offshore equity investments because I think your returns (when adjusted back to rand values) are muted. However the valuations of international markets are still low and do provide some diversification benefit to SA investors, especially if our market reaches PE's of 18 to 20.

Although I am a massive fan of the listed property sector, I am very concerned about valuations. I would be very cautious with this sector.

In summary, try to maintain a balanced investment portfolio through this year. If you have firm views on the direction of the market, try to ensure that some of your investments will still do well even if you are wrong. This means having a diversified portfolio of shares and other asset classes.